

**WATAUGA COUNTY, NORTH CAROLINA**

**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Watauga County, North Carolina**  
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**June 30, 2009**

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## Independent Auditor's Report

To the Board of County Commissioners  
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Watauga County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the AppalCART or the Watauga County District U Tourism Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the AppalCART and the Watauga County District U Tourism Development Authority is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina as of June 30, 2009, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund and capital reserve fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2009, on our consideration of Watauga County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis, and the Law Enforcement Officers' Special Separation Allowance and Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions are not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Watauga County, North Carolina. The combining and individual nonmajor fund schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and the statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bryce Holder, CPA, PA*

October 30, 2009

# BASIC FINANCIAL STATEMENTS

## Watauga County

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

#### Management's Discussion and Analysis

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As management of Watauga County, we offer readers of Watauga County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2009. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements and notes, which follow this narrative.

#### Financial Highlights

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- The assets of the County exceeded its liabilities at the close of the fiscal year by \$68,971,662.
- The County's total net assets increased by \$2,848,272 primarily due to an increase in revenues and expenditures less than budgeted amounts.
- The County's unreserved fund balance for the general fund was \$17,467,729 at the end of the year, representing 36.3% of total General Fund expenditures.
- Watauga County continued construction of a new Watauga High School. Projected occupancy date of the 273,000+ square foot facility is July 2010.
- Watauga County's bond rating was upgraded by Moody's Investor Service from A1 to Aa3

#### Overview of the Financial Statements

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This discussion and analysis is intended to serve as an introduction to Watauga County's basic financial statements. The County's basic financial statements consist of three components, 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

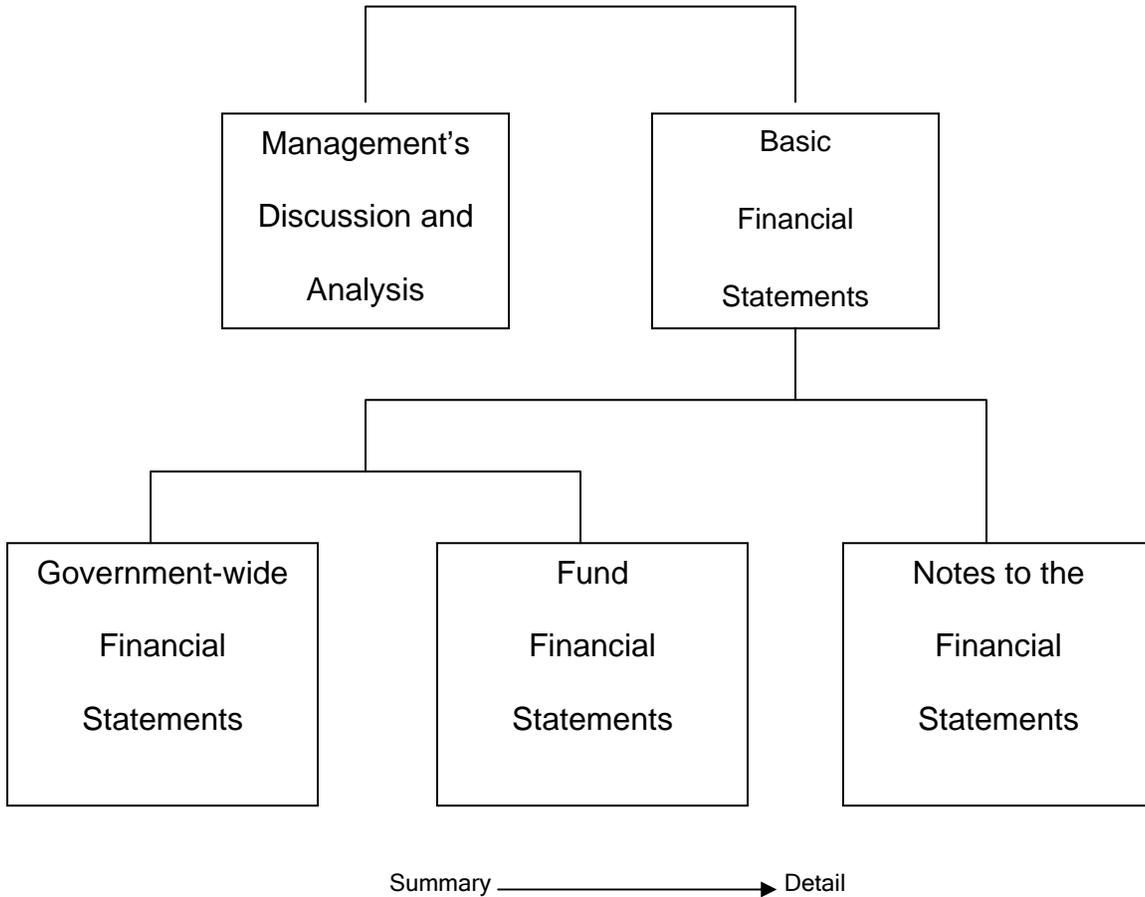
The basic financial statements present two different views of the County's finances through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Watauga County.

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## Required Components of Annual Financial Report

Figure 1

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### Basic Financial Statements

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The first two statements (Exhibits A and B) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements (Exhibits C through J) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are four parts to the fund financial statements: 1) the governmental fund statements, 2) the budgetary comparison statement 3) the proprietary fund statements and 4) the fiduciary fund statements.

The next sections of the basic financial statements are the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's programs. Budgetary information required by the General Statutes also can be found in this part of the statements.

Following the notes is the required supplemental information. This section contains funding information about the County's pension plans and other postemployment benefits plans.

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### Government-wide Financial Statements

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The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gauge the County's financial condition.

Government-wide financial statements may be divided into as many as three categories. 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. This includes landfill services offered by Watauga County. The final category are the component units. AppalCART is a separate not-for-profit organization, which operates a transportation authority primarily in Watauga County. Watauga County Board of Commissioners appoints the seven-member governing body. Watauga County provides some financial support and AppalCART is financially accountable to the County. Effective July 1, 2006, the Watauga County Board of Commissioners levied six percent occupancy tax and created a Tourism Development Authority to administer funds collected to promote tourism in the county. The seven member Authority Board is appointed by the County Board of Commissioners.

The government-wide financial statements are on Exhibits A and B of this report.

### Fund Financial Statements

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The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Watauga County, like all governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of the County can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's activities are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting. This method has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: 1) the final budget as amended by the board, 2) the actual resources, charges to appropriations, and ending balances in the General Fund, and 3) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Proprietary Funds** - Watauga County has one proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-like activities in the government-wide financial statements. Watauga County uses enterprise funds to account for its solid waste operations. This fund is the same as those separate activities shown in the business-type activities in the Statement of Net Assets and Statement of Activities.

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**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Watauga County has 8 fiduciary funds, one which is a postemployment benefit trust fund; the second is a pension trust fund and 6 which are agency funds.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 14 of this report.

**Other Information** - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Watauga County's progress in funding its obligation to provide pension benefits to its employees and other postemployment benefits. Required supplementary information can be found beginning on page 49 of this report.

**Government-Wide Financial Analysis**

**Watauga County's Net Assets  
Figure 2**

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Current and other assets	\$ 56,091,913	92,963,638	2,570,816	3,132,341	58,662,729	96,095,979
Capital assets	<u>92,428,235</u>	<u>56,377,165</u>	<u>5,538,673</u>	<u>5,362,156</u>	<u>97,966,908</u>	<u>61,739,321</u>
Total asset	<u>148,520,148</u>	<u>149,340,803</u>	<u>8,109,489</u>	<u>8,494,497</u>	<u>156,629,637</u>	<u>157,835,300</u>
Long-term liabilities, outstanding	83,241,428	81,044,251	314,129	301,919	83,555,557	81,346,170
Other liabilities	<u>3,663,684</u>	<u>10,028,420</u>	<u>438,734</u>	<u>545,481</u>	<u>4,102,418</u>	<u>10,573,901</u>
Total liabilities	<u>86,905,112</u>	<u>91,072,671</u>	<u>752,863</u>	<u>847,400</u>	<u>87,657,975</u>	<u>91,920,071</u>
Net assets:						
Invested in capital assets, net of related debt	39,070,022	37,391,945	5,314,853	4,942,169	44,384,875	42,334,114
Restricted	1,073,284	1,027,269	--	--	1,073,284	1,027,269
Unrestricted	<u>21,471,730</u>	<u>19,848,918</u>	<u>2,041,773</u>	<u>2,704,928</u>	<u>23,513,503</u>	<u>22,553,846</u>
Total net assets	\$ <u>61,615,036</u>	<u>58,268,132</u>	<u>7,356,626</u>	<u>7,647,097</u>	<u>68,971,662</u>	<u>65,915,229</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$68,971,682 at June 30, 2009. The County's net assets increased by \$2,848,272 for the fiscal year ended June 30, 2009. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$44,384,875, Restricted net assets of \$1,073,284 and Unrestricted net assets of \$23,513,503.

The invested in capital assets, net of related debt category is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. At June 30, 2009, the increase in this category of net assets is due to current year additions to capital assets being more than offset by current year depreciation expenses and new long-term debt issuances.

Another category of net assets is restricted net assets. This represents resources that are subject to external restrictions on how they may be used.

The final category of net assets is unrestricted net assets. This balance may be used to meet the government's ongoing obligations to citizens and creditors.

Several particular aspects of the County's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 97.01%, which is comparable to the 2008 statewide average of 97.38%.

**Watauga County Changes in Net Assets  
Figure 3**

	Government Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	1,465,345	1,722,866	3,895,892	4,145,551	5,361,236	5,868,417
Operating grants and contributions	5,534,212	5,470,889	106,340	80,064	5,640,552	5,550,953
Capital grants	--	--	--	--	--	--
General revenues:						
Property taxes	29,561,074	26,215,391	--	--	29,561,074	26,215,391
Other taxes	12,508,532	16,438,011	--	--	12,508,532	16,438,011
Grants and contributions not restricted to specific programs	30,040	13,182	--	--	30,040	13,182
Donations	--	--	--	--	--	--
Other	1,741,385	1,343,960	27,520	198,838	1,768,905	1,542,798
Total revenues	50,840,588	51,204,299	4,029,752	4,424,453	54,870,340	55,628,752
Expenses:						
General government	8,103,706	7,607,070	--	--	8,103,706	7,607,070
Public safety	11,318,382	10,430,270	--	--	11,318,382	10,430,270
Economic and physical development	1,102,563	692,769	--	--	1,102,563	692,769
Human services	8,091,300	8,271,220	--	--	8,091,300	8,271,220
Cultural and recreation	1,321,470	1,499,287	--	--	1,321,470	1,499,287
Education	14,206,909	13,041,822	--	--	14,206,909	13,041,822
Interest on long-term debt	3,635,985	1,937,294	--	--	3,635,985	1,937,294
Solid Waste	--	--	4,241,753	4,357,664	4,241,753	4,357,664
Total expenses	47,780,315	43,479,732	4,241,753	4,357,664	52,022,068	47,837,396
Increase (decrease) in net assets before transfers	3,060,273	7,724,567	(212,001)	66,789	2,848,272	7,791,356
Transfers	78,470	81,948	(78,470)	(81,948)	--	--
Increase (decrease) in net assets	3,138,743	7,806,515	(290,471)	(15,159)	2,848,272	7,791,356
Net assets, July 1	58,268,132	50,576,963	7,647,097	7,662,256	65,915,229	58,239,219
Prior period adjustments	208,161	(115,346)	--	--	208,161	(115,346)
Net assets, June 30	61,615,036	58,268,132	7,356,626	7,647,097	68,971,662	65,915,229

**Governmental activities.** Governmental activities increased the County's net assets by \$3,138,743 thereby accounting for 100.0% of the total growth in the net assets of Watauga County. Key elements of this increase are as follows:

- Increased collections of property tax revenue above budgeted amounts
- Solicitation of additional grant revenues for the Public Safety and Education
- Maintenance of the County's high tax collections rate of 97.01%
- Continued participation in Gov Deals to sell County surplus assets via electronic auction

**Business-type activities:** Business-type activities decreased Watauga County's net assets by \$290,471. Key element of this decrease is as follows:

- Decrease in revenues due to decreased use of County solid waste facilities
- Increase in revenue from sale of surplus fixed assets as a result of participation in Gov Deal electronic auctions
- Reduced debt service costs

### Financial Analysis of the County's Funds

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As noted earlier, Watauga County used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** - The focus of Watauga County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$17,467,729 while total fund balance went up to \$23,472,572. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 36.35 percent of total General Fund expenditures, while total fund balance represents 48.84 percent of that same amount.

At June 30, 2009, the governmental funds of Watauga County reported a combined fund balance of \$51,978,285, a 40.1 percent decrease over last year. The primary reason for this decrease is the continued construction of the new high school.

**General Fund Budgetary Highlights** - During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues, transfers and expenditures by \$5,635,594.

The actual operating revenues for the General Fund were \$1,353,653 less than the budgeted amount. Actual operating expense was less than budgeted by \$5,035,544.

**Proprietary Funds** - Watauga County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid waste Landfill Fund at the end of the fiscal year amounted to \$2,041,773. The total decrease in net assets was \$290,471.

### Capital Asset and Debt Administration

**Capital Assets.** Watauga County's investment in capital assets for its governmental and business - type activities as of June 30, 2009, totals \$97,966,220 (net of depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include:

- Purchased new vehicles for County departments
  - Completed construction of additional parking adjacent to the courthouse on the former law enforcement center site
  - Continued improvement of 75+ acres of land at Brookshire Park for mixed uses of recreation, affordable housing, and a commerce park
  - Continued construction of new county wide high school on 90+ acres site purchased last year
  - Completed two regulation softball fields on property adjacent to the current Watauga County Park and Recreation facilities. Site is part of long term lease with the Town of Boone to be used to provide additional recreation facilities
  - Completed renovation and addition to Watauga County Courthouse
  - Completed renovation of tot playgrounds at two County recreational facilities
-

## Watauga County's Capital Assets

Figure 4

### WATAUGA COUNTY'S CAPITAL ASSETS

(net of depreciation)

	Governmental	Business	Total
	Activities	Activities	
	2009	2009	2009
Land	\$ 12,597,260	1,377,212	13,974,472
Buildings	22,673,218	3,251,646	25,924,176
Other improvements	55,055	197,423	252,478
Equipment	1,673,699	302,517	1,976,216
Vehicles	760,125	409,875	1,170,000
Construction in progress	54,668,878	--	54,668,878
Total	\$ 92,428,235	5,538,673	97,966,220

Additional information on the County's capital assets can be found in note 3 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2009, Watauga County had bonded debt outstanding of \$7,405,000 all of which is backed by the good faith and credit of the County.

## Watauga County's Outstanding Debt

### General Obligation Bonds

Figure 5

	Governmental Activities	
	2009	2008
General obligation bonds	\$ 7,405,000	8,755,000
Installment purchase	\$74,798,271	75,626,407

Watauga County's total debt decreased by \$2,178,136 or (2.6%) during the past fiscal due to debt service payments.

As mentioned in the financial highlights section of this document, Watauga County increased its bond rating by Moody's to Aa3. This bond rating is a good indication of the sound financial condition of Watauga County. A good bond rating also helps keep interest costs low on the County's outstanding debt.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Watauga County is \$682,029,168.

Additional information regarding Watauga County's long-term debt can be found in note 3 beginning on page 41 of this report.

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### Economic Factors and Next Year's Budgets and Rates

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The following key economic indicators reflect the economic environment the County is working in.

- The County is experiencing a low unemployment rate of 8.1%, well below the state average of 11%
- The County continues to experience growth in the tourism industry with an annual economic impact of approximately \$190+ million
- Appalachian State University's economic impact is estimated at \$506 million a year and provides stability to the local economy
- New construction and real estate sales have remained relatively flat consistent with state and national trends
- The County delayed the property tax revaluation scheduled to be effective January 1, 2012

### Budget Highlights for the Fiscal Year Ending June 30, 2010

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**Governmental activities** -The County's property tax rate is maintained at rate of 31.3 cents per \$100 in property valuation. 3.41 cents of the tax rate which generates approximately \$2.856 million in property tax revenue is earmarked for debt service and capital needs for the public school system. Sales tax revenue is projected to remain flat due to a slowing economy.

Budgeted expenditures in the General Fund includes a 3% increase in the current expense appropriation to the school system, as well as \$3,964,700 to be transferred to the Capital Reserve Fund to fund high school, construction and/or debt service.

**Businesses-type Activities:** Budgeted revenues for tipping, greenbox, and landfill fees remain stable in the Solid waste Fund tipping fees are projected to decline due to a decrease in the waste stream and increased recycling. Budgeted expenditures include funding for an increase county-wide focus on recycling efforts.

#### **Requests for Information**

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Watauga County Finance Director, 814 West King Street-Room 216, Boone, NC 28607.

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## FINANCIAL SECTION

Watauga County, North Carolina  
Statement of Net Assets  
June 30, 2009

Exhibit A

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	AppalCART	Watauga County District U Tourism Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 50,312,496	2,199,202	52,511,698	822,781	1,215,882
Receivables (net)	2,775,159	349,058	3,124,217	5,545	10,000
Due from other governments	2,358,778	22,556	2,381,334	183,118	62,281
Inventories	--	--	--	144,925	--
Other assets	198,805	--	198,805	--	--
Deferred charges - issuance cost	75,418	--	75,418	--	--
Deferred charges - refunding	292,498	--	292,498	--	--
Intangible asset - advanced funding of pension obligation	78,759	--	78,759	--	--
Capital assets:					
Land, improvements, and construction in progress	67,266,138	1,377,212	68,643,350	--	--
Other capital assets, net of depreciation	25,162,097	4,161,461	29,323,558	4,309,342	9,494
Total capital assets	92,428,235	5,538,673	97,966,908	4,309,342	9,494
Total assets	148,520,148	8,109,489	156,629,637	5,465,711	1,297,657
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	2,369,177	228,206	2,597,383	80,786	46,993
Unearned revenue	163,958	205,630	369,588	18,819	--
Accrued interest payable	1,074,226	--	1,074,226	--	--
Net OPEB Liability	56,323	4,898	61,221	--	--
Long-term liabilities:					
Due within one year	4,751,314	178,222	4,929,536	59,608	--
Due in more than one year	78,490,114	135,907	78,626,021	--	1,896
Total liabilities	86,905,112	752,863	87,657,975	159,213	48,889
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	39,070,022	5,314,853	44,384,875	4,309,342	9,494
Restricted for:					
Public safety	793,481	--	793,481	--	--
Register of Deeds	279,803	--	279,803	--	--
Unrestricted (deficit)	21,471,730	2,041,773	23,513,503	997,156	1,239,274
Total net assets	\$ 61,615,036	7,356,626	68,971,662	5,306,498	1,248,768

The notes to the financial statements are an integral part of this statement.

**Watauga County, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2009**

Functions/Programs	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 8,103,706	699,218	67,751	--
Public safety	11,318,382	452,002	814,824	--
Economic and physical development	1,102,563	--	228,493	--
Human service	8,091,300	15,339	3,816,608	--
Cultural and recreation	1,321,470	298,786	--	--
Education	14,206,909	--	606,536	--
Interest on long-term debt	3,635,985	--	--	--
Total governmental activities	47,780,315	1,465,345	5,534,212	--
--				
Business-type activities:				
Solid waste	4,241,753	3,895,892	106,340	--
Total	\$ 52,022,068	5,361,237	5,640,552	--
Component units:				
AppalCART	\$ 2,902,328	1,266,253	1,385,620	681,160
Watauga County District U Development Authority	\$ 808,401	--	--	--
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Local option sales tax				
Other taxes and licenses				
Grants and contributions not restricted to specific programs				
Investment earnings, unrestricted				
Miscellaneous, unrestricted				
Future period funding				
Donations, unrestricted				
Gain on sale of assets				
Transfers				
Total general revenues, special items, and transfers				
Change in net assets				
Net assets - beginning				
Prior period adjustment				
Net assets - ending				

**Watauga County, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2009**

**Exhibit B**

<b>Net (Expense) Revenues and Changes in Net Assets</b>				
<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>AppalCART</b>	<b>Watauga County District U Tourism Development Authority</b>
(7,336,737)	--	(7,336,737)		
(10,051,556)	--	(10,051,556)		
(874,070)	--	(874,070)		
(4,259,353)	--	(4,259,353)		
(1,022,684)	--	(1,022,684)		
(13,600,373)	--	(13,600,373)		
(3,635,985)	--	(3,635,985)		
(40,780,758)	--	(40,780,758)		
--	(239,521)	(239,521)		
(40,780,758)	(239,521)	(41,020,279)		
			430,705	(808,401)
\$ 29,561,074	--	29,561,074	--	--
11,006,833	--	11,006,833	--	--
1,501,699	--	1,501,699	--	760,526
30,040	--	30,040	--	--
699,388	27,980	727,368	4,079	14,986
998,282	--	998,282	--	--
43,715	--	43,715	--	--
--	--	--	--	--
--	(460)	(460)	7,054	--
78,470	(78,470)	--	--	--
43,919,501	(50,950)	43,868,551	11,133	775,512
3,138,743	(290,471)	2,848,272	441,838	(32,889)
58,268,132	7,647,097	65,915,229	4,864,660	1,281,657
208,161	--	208,161	--	--
\$ 61,615,036	7,356,626	68,971,662	5,306,498	1,248,768

The notes to the financial statements are an integral part of this statement.

**Watauga County, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2009**

**Exhibit C**

	General	Capital Reserve Fund	Watauga High School	Other Governmental Funds	Total Governmental Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ 20,881,958	7,165,803	21,440,058	824,677	50,312,496
Taxes receivable, net	1,069,774	--	--	135,261	1,205,035
Due from other governments	2,358,778	--	--	--	2,358,778
Due from other funds	193	--	--	--	193
Accounts receivable, net	845,448	--	555,431	96,020	1,496,899
Other assets	198,805	--	--	--	198,805
Total assets	<u>\$ 25,354,956</u>	<u>7,165,803</u>	<u>21,995,489</u>	<u>1,055,958</u>	<u>55,572,206</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 793,094	--	1,451,883	124,200	2,369,177
Unearned revenue	19,437	--	--	--	19,437
Deferred revenue	1,069,853	--	--	135,261	1,205,114
Due to other funds	--	--	--	193	193
Total liabilities	<u>1,882,384</u>	<u>--</u>	<u>1,451,883</u>	<u>259,654</u>	<u>3,593,921</u>
Fund balances:					
Reserved for:					
State statute	3,403,148	--	--	33,183	3,436,331
Encumbrances	1,894,090	--	--	--	1,894,090
Register of Deeds	279,803	--	--	--	279,803
E-911	75,902	--	--	--	75,902
Other post employment benefits	351,900	--	--	--	351,900
Unreserved	17,467,729	7,165,803	--	--	24,633,532
Unreserved, reported in nonmajor:					
Special revenue funds	--	--	--	763,121	763,121
Capital projects funds	--	--	20,543,606	--	20,543,606
Total fund balances	<u>23,472,572</u>	<u>7,165,803</u>	<u>20,543,606</u>	<u>796,304</u>	<u>51,978,285</u>
Total liabilities and fund balances	<u>\$ 25,354,956</u>	<u>7,165,803</u>	<u>21,995,489</u>	<u>1,055,958</u>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

The pension assets resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not required in the funds.

78,759

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

92,428,235

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

73,225

Liabilities for earned but deferred revenues in fund statements.

1,060,593

Deferred charges based on refunding issues.

367,916

Some liabilities, including bonds payable and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds (Note 3).

(84,371,977)

Net assets of governmental activities

\$ 61,615,036

The notes to the financial statements are an integral part of this statement.

**Watauga County, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2009**

Exhibit D

	General	Capital Reserve Fund	Watauga High School	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Ad valorem taxes	\$ 26,702,827	--	--	2,547,029	29,249,856
Local option sales taxes	11,006,833	--	--	--	11,006,833
Other taxes and licenses	723,390	--	--	778,309	1,501,699
Unrestricted intergovernmental	30,040	--	--	--	30,040
Restricted intergovernmental	4,837,612	--	--	696,600	5,534,212
Permits and fees	726,079	--	--	--	726,079
Sales and services	730,809	--	--	--	730,809
Investment earnings	277,758	99,152	322,445	8,490	707,845
Donations	--	45,000	--	6,594	51,594
Miscellaneous	388,489	--	570,233	--	958,722
Total revenues	<u>45,423,837</u>	<u>144,152</u>	<u>892,678</u>	<u>4,037,022</u>	<u>50,497,689</u>
<b>EXPENDITURES</b>					
Current:					
General government	7,817,142	--	--	778,309	8,595,451
Public safety	7,821,301	--	--	3,000,140	10,821,441
Economic and physical development	1,069,804	--	--	--	1,069,804
Human services	7,584,279	--	--	--	7,584,279
Cultural and recreational	1,408,677	--	--	--	1,408,677
Intergovernmental:					
Education	14,206,728	--	--	--	14,206,728
Capital outlay	--	--	33,137,701	3,214,017	36,351,718
Debt service:					
Principal	4,778,137	--	--	--	4,778,137
Interest	3,372,801	--	--	--	3,372,801
Total expenditures	<u>48,058,869</u>	<u>--</u>	<u>33,137,701</u>	<u>6,992,466</u>	<u>88,189,036</u>
Excess (deficiency) of revenues over expenditures	<u>(2,635,032)</u>	<u>144,152</u>	<u>(32,245,023)</u>	<u>(2,955,444)</u>	<u>(37,691,347)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds	10,652,151	5,799,843	--	400,000	16,851,994
Transfers to other funds	(5,559,700)	(7,094,730)	(4,119,094)	--	(16,773,524)
Future projects funding	--	43,715	--	--	43,715
Proceeds from loan	--	--	--	2,600,000	2,600,000
Total other financing sources and uses	<u>5,092,451</u>	<u>(1,251,172)</u>	<u>(4,119,094)</u>	<u>3,000,000</u>	<u>2,722,185</u>
Net change in fund balance	2,457,419	(1,107,020)	(36,364,117)	44,556	(34,969,162)
Fund balances-beginning	20,772,713	8,272,823	56,907,723	786,027	86,739,286
Prior period adjustment	242,440	--	--	(34,279)	208,161
Fund balances-ending	<u>\$ 23,472,572</u>	<u>7,165,803</u>	<u>20,543,606</u>	<u>796,304</u>	<u>51,978,285</u>

The notes to the financial statements are an integral part of this statement.

**Watauga County, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2009**

**Exhibit D**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	(34,969,162)
---	----	--------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

36,037,483

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis until due, rather than as it accrues. This adjustment combines the net changes for four balances.

Other postemployment benefits	(56,323)	
Compensated absences	(118,499)	
Advance funding of pension obligation	6,841	
Accrued interest expense	(257,766)	
Taxes receivable	<u>311,218</u>	
Combined adjustment		(114,529)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

2,184,951

Total changes in net assets of governmental activities	\$	<u>3,138,743</u>
--	----	------------------

The notes to the financial statements are an integral part of this statement.

**Watauga County, North Carolina**  
**General Fund and Annually Budgeted Major Special Revenue Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2009**

	<b>General Fund</b>			
	Budget		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 26,397,552	26,397,552	26,702,827	305,275
Local option sales tax	12,520,293	12,520,293	11,006,833	(1,513,460)
Other taxes and licenses	797,000	800,000	723,390	(76,610)
Unrestricted intergovernmental	13,000	13,000	30,040	17,040
Restricted intergovernmental	3,518,141	4,487,099	4,837,612	350,513
Permits and fees	950,500	969,025	726,079	(242,946)
Sales and services	795,790	793,857	730,809	(63,048)
Investment earnings	432,777	432,777	277,758	(155,019)
Donations	--	--	--	--
Miscellaneous	122,182	363,887	388,489	24,602
Total revenues	<u>45,547,235</u>	<u>46,777,490</u>	<u>45,423,837</u>	<u>(1,353,653)</u>
<b>Expenditures:</b>				
Current:				
General government	8,887,497	11,642,498	7,817,142	3,825,356
Public safety	8,007,790	8,391,366	7,821,301	570,065
Economic & Physical	971,919	1,160,948	1,069,804	91,144
Human services	7,544,293	7,820,331	7,584,279	236,052
Cultural and recreation	1,490,580	1,465,193	1,408,677	56,516
Education	12,391,904	14,449,241	14,206,728	242,513
Debt service:				
Principal retirement	4,824,103	4,824,103	4,778,137	45,966
Interest and other charges	3,340,733	3,340,733	3,372,801	(32,068)
Total expenditures	<u>47,458,819</u>	<u>53,094,413</u>	<u>48,058,869</u>	<u>5,035,544</u>
Revenues over (under) expenditures	<u>(1,911,584)</u>	<u>(6,316,923)</u>	<u>(2,635,032)</u>	<u>3,681,891</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	5,554,115	6,773,200	10,652,151	3,878,951
Transfers to other funds	(5,559,700)	(5,559,700)	(5,559,700)	--
Future project funding	--	--	--	--
Loan proceeds	--	--	--	--
Fund balance appropriated	1,917,169	5,103,423	--	(5,103,423)
Total other financing sources (uses)	<u>1,911,584</u>	<u>6,316,923</u>	<u>5,092,451</u>	<u>(1,224,472)</u>
Revenues and other sources over (under) expenditures and other uses	--	--	2,457,419	2,457,419
Fund balances, beginning of year	--	--	20,772,713	--
Prior period adjustment	--	--	242,440	--
Fund balances, end of year	<u>\$ --</u>	<u>--</u>	<u>23,472,572</u>	<u>--</u>



**Watauga County, North Carolina**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2009**

		<u>Enterprise Fund</u>
		<u>Solid Waste Fund</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$	2,199,202
Receivables, net		349,058
Due from other governments		22,556
Total current assets		<u>2,570,816</u>
Capital assets:		
Land, improvements, and construction in progress		1,377,212
Other capital assets, net of depreciation		4,161,461
Total capital assets		<u>5,538,673</u>
Total assets		<u>8,109,489</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable		228,206
Installment purchase payable		178,222
Total current liabilities		<u>406,428</u>
Noncurrent liabilities:		
Deferred Revenue		205,630
Compensated absences		90,308
Accrued other post employment benefit		4,898
Installment purchase payable		45,599
Total noncurrent liabilities		<u>346,435</u>
Total liabilities		<u>752,863</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		5,314,853
Unrestricted		2,041,773
Total net assets	\$	<u><u>7,356,626</u></u>

The notes to the financial statements are an integral part of this statement.

**Watauga County, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2009**

		<u>Enterprise Fund</u>
		<u>Solid Waste Fund</u>
<b>OPERATING REVENUES:</b>		
Charges for services	\$	3,895,892
Restricted intergovernmental revenues		<u>106,340</u>
Total operating revenues		<u>4,002,232</u>
<b>OPERATING EXPENSES:</b>		
Landfill operations		3,994,788
Depreciation		<u>234,281</u>
Total operating expenses		<u>4,229,069</u>
Operating income (loss)		<u>(226,837)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest and investment revenue		27,980
Interest paid on long term debt		(12,684)
Gain (loss) on sale of assets		<u>(460)</u>
Total non operating revenue (expenses)		<u>14,836</u>
Income (loss) before transfers		(212,001)
Transfers (to) from other funds (net)		<u>(78,470)</u>
Change in net assets		(290,471)
Total net assets - beginning		<u>7,647,097</u>
Total net assets - ending	\$	<u><u>7,356,626</u></u>

The notes to the financial statements are an integral part of the statement.

**Watauga County, North Carolina**  
**Statement of Cash Flows**  
**Enterprise Fund**  
**For The Fiscal Year Ended June 30, 2009**

	<u><b>Solid Waste Fund</b></u>
Cash flows from operating activities:	
Cash received from customers	\$ 3,902,574
Cash paid for goods and services	(2,763,870)
Cash paid to employees for services	(1,156,709)
Other operating revenue	106,340
Net cash provided by (used) operating activities	<u>88,335</u>
Cash flows from noncapital financing	
Operating transfers (net)	<u>(78,470)</u>
Cash flows from capital and related financing activities:	
Proceeds received from sale of fixed assets	14,398
Acquisition and construction of capital assets	(421,945)
Principal paid on installment purchase contracts	(196,164)
Interest paid on installment purchase contracts	(12,684)
Net cash used by capital and related financing activities	<u>(616,395)</u>
Cash flows from investing activities:	
Interest on investments	<u>27,980</u>
Net increase (decrease) in cash and cash equivalents	(578,550)
Cash and cash equivalents, July 1	<u>2,777,752</u>
Cash and cash equivalents, June 30	<u>\$ 2,199,202</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income (loss)	<u>\$ (226,837)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	234,281
Noncash misc revenue	(3,712)
Changes in assets and liabilities:	
Increase in accounts receivable	(17,024)
Increase in deferred revenue	27,494
Increase in accounts payable and accrued liabilities	57,058
Increase in accrued OPEB	4,898
Increase in accrued vacation pay	12,253
Decrease in customer deposits	(76)
Total adjustments	<u>315,172</u>
Net cash used by operating activities	<u>\$ 88,335</u>

The notes to the financial statements are an integral part of this statement.

**Watauga County, North Carolina  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2009**

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ <u>172,321</u>	<u>34,652</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ <u>    --</u>	<u>34,652</u>
Net Assets:		
Assets held in trust for pension benefits	\$ <u>172,321</u>	<u>    --</u>

The notes to the financial statements are an integral part of this statement.

**Watauga County, North Carolina**  
**Statement of Changes in Fiduciary Net**  
**Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2009**

**Exhibit J**

		<b>Pension Trust Fund</b> <hr/> June 30, 2009 <hr/>
Additions:		
Employer contributions	\$	30,983
Interest earned		<u>1,918</u>
Total additions		<u>32,901</u>
Deductions:		
Benefits		20,749
Administrative expense		<u>234</u>
Total deductions		<u>20,983</u>
Change in net assets		11,918
Net assets, beginning		<u>160,403</u>
Net assets, ending	\$	<u><u>172,321</u></u>

# WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

## Note 1 - Summary of Significant Accounting Policies:

The accounting policies of Watauga County and its component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

### A. Reporting Entity:

The County, which is governed by a five-member Board of Commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component units, legally-separate entities for which the County is financially accountable. The discretely presented component units presented below are reported in a separate column in the County's combined financial statements in order to emphasize that they are legally separate from the County.

### AppalCART

AppalCART operates mainly in Watauga County in the northwest part of North Carolina, providing transportation services to the various areas and residents within Watauga County. Watauga County's Board of Commissioners appoints the seven-member governing board of AppalCART and AppalCART operates within the County's boundaries for the benefit of the County's residents. The County provides some financial support to AppalCART but it is not responsible for the debts of AppalCART except when such are expressly granted by statute or by the consent of the Board of Commissioners of Watauga County. The Board of Commissioners of Watauga County has the authority to terminate the existence of AppalCART at any time, provided a 60-Day written notice is given to AppalCART, and all property and assets of AppalCART shall automatically become the property of Watauga County and the County shall succeed to all rights, obligations and liabilities of AppalCART. AppalCART designates its own management, approves its own budget, and maintains its own accounting system; however, AppalCART is fiscally accountable to Watauga County, and the County has the authority to examine all records and accounts at any time. AppalCART, which has a June 30 year-end, is presented as if it were a proprietary fund. Complete financial statements may be obtained from the entity's administrative offices at AppalCART, PO Box 2357, Boone, NC 28607.

### Watauga County District U Tourism Development Authority

The North Carolina General Legislation enacted a law which authorized Watauga County to levy a room occupancy and tourism development tax; and the Watauga County commissioners adopted a resolution levying this tax and created the Watauga County District U Tourism Development Authority. The Authority operates within Watauga County's boundaries for the benefit of the County's residents, and the County provides financial support to the Authority, but the County is not responsible for the debts and is not entitled to the surpluses of the Authority. Watauga County's Board of Commissioners appoints the six voting members of the Authority. The Watauga County District U Tourism Development Authority has a June 30 year end and is presented as if it is a governmental fund. Complete financial statements may be obtained from the entity's administrative offices at Watauga County District U Tourism Development Authority, 814 West King St., Boone, NC 28607

## Note 1 - Summary of Significant Accounting Policies (continued):

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

**B. Basis of Presentation – Basis of Accounting**

**Basis of Presentation, Measurement Focus – Basis of Accounting**

*Government-wide Statement:* The statement of net assets and the statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the difference business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The County reports the following major governmental funds:

*General Fund* – This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Capital Reserve Fund* – This is a special revenue fund. It accounts for the County's reserves set aside for future capital asset additions.

*Watauga High School Capital Project Fund* - This is a capital project fund. It accounts for the construction of the new high school.

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

**B. Basis of Presentation – Basis of Accounting (continued)**

The County reports the following major enterprise fund:

*Solid Waste Fund* – This fund accounts for the operation, maintenance, and development of the County's landfill and disposal sites.

The County reports the following fund types:

*Pension Trust Fund-* The County maintains one Pension Trust Fund – the Special Separation Allowance Fund. Pension trust funds are used to report resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans. The Special Separation Allowance Fund, that account for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

*Agency Funds* – Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: the Social Services Fund, which accounts for moneys deposited with the Department of Social Services for the benefit of certain individuals; the Vehicle Tax-Towns Fund, which accounts for registered motor vehicle property taxes that are billed and collected by the County for various municipalities within the County; the Jail Commissary Fund, which accounts for monies deposited with the County's Detention Center for the benefit of certain individuals; the Fines and Forfeitures Fund which accounts for various fines and forfeitures that the County is required to remit to the Watauga County Board of Education, and the Motor Vehicle Tax Fund which accounts for the three percent interest on the first month of delinquent motor vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles.

**Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, all funds of the County are maintained during the year using the modified accrual basis of accounting.

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements* – The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds which have no measurement focus. The government-wide, proprietary fund and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Note 1 - **Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation – Basis of Accounting (continued)**

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2009

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connecting with a proprietary fund's principal ongoing operations. The principal operating revenues of the County enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*Governmental Fund Financial Statements* – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Watauga County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the county. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2008 through February 2009 apply to the fiscal year ended June 30, 2009. Uncollected taxes which were billed during this period are shown as a receivable on these financial statements.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues, and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

### **Note 1 - Summary of Significant Accounting Policies (continued):**

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the County follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

### **C. Budgetary Data**

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Capital Reserve, the Substance Abuse Tax, the Emergency Telephone, Fire District, Occupancy Tax, the Tweetsie Incentive Project, and Revaluation Special Revenue Funds, and Enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the CDBG Scattered Site Housing Grant Special Revenue Fund and the Capital Projects Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The budget officer is authorized by the budget ordinance to transfer appropriation within a fund up to 10% of the total departmental appropriation; however, any revisions that alter the total expenditures of any fund must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

### **D. Assets, Liabilities and Fund Equity**

#### **1. Deposits and Investments**

All deposits of the County, AppalCART, and the Watauga County District U Tourism Development Authority are made in board-designated official depositories and are secured as required by G.S. 159-31. The County, AppalCART, and the Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the County, AppalCART, and the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the County, AppalCART, and the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

## **Note 1 - Summary of Significant Accounting Policies (continued):**

### **D. Assets, Liabilities and Fund Equity (continued)**

The County, AppalCART, and the Authority's investments are carried at fair value as determined by

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

quoted market prices. The NCCMT Cash Portfolio's securities, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

**2. Cash and Cash Equivalents**

The County pools money from several funds, except the Pension Trust Fund, to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. AppalCART and the Authority consider demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

**3. Ad Valorem Taxes Receivable**

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2009.

**4. Allowances for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

**5. Inventory**

The inventories of AppalCART are maintained for fuel oil, tires, and vehicle parts; valuation is at lower of cost or market on an average basis.

**Note 1 - Summary of Significant Accounting Policies (continued):**

**D. Assets, Liabilities and Fund Equity (continued)**

**6. Capital Assets**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization is \$5,000 for all governmental fund assets. On July 1, 1989, the County established the Solid Waste Enterprise Fund to account for the operations of the landfill. At this time, all landfill assets were transferred to this fund at original cost less accumulated depreciation from date of purchase. Property, plant, and equipment acquired after July 1, 1989, are recorded at original cost at time of acquisition. After July 1, 2002, the Enterprise Fund's minimum capitalization cost is \$5,000. Prior to July 1, 2002, the Enterprise Fund did not have a minimum capitalization cost. Plant assets of the County are depreciated on a composite straight-line basis for the entire plant, regardless of the year of acquisition, at a 2% annual rate. In the composite rate, gain or loss on disposition is not calculated except in extraordinary circumstances. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the County are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	30 to 50
Improvements	8 to 10
Furniture and equipment	5 to 10
Vehicles	5 to 6
Computer equipment	3 to 6

Capital assets of the AppalCART are depreciated over their useful lives on a straight-line basis as follows:

	<u>Years</u>
Office furniture and equipment	5-7
Maintenance and shop equipment	8
Vehicles	7-12
Land improvements	10

Capital assets of the Watauga County District U Tourism Development Authority are depreciated over their useful lives on a straight-line basis as follows:

	<u>Years</u>
Computer Equipment	5
Furniture & Equipment	7

**Note 1 - Summary of Significant Accounting Policies (continued):**

**D. Assets, Liabilities and Fund Equity (continued)**

**7. Long-term Obligations**

In the government-wide financial statements and in the proprietary fund types in the fund financial

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as an other financing source.

**8. Compensated Absences**

The vacation policies of the County and AppalCART provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the County's government-wide and proprietary funds and AppalCART, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The vacation policy of the Authority provided for the accumulation of up to 15 days earned vacation leave which such leave being fully vested when earned. For the government-wide statement, an expense and liability for compensated absences and salary-related payments are recorded as the leave is earned.

The sick leave policies of the County and AppalCART provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. The sick leave policy of the Authority provides for the accumulation of up to 15 days of sick leave. Any accumulation over the 15 days is forfeited and the accumulated sick leave does not vest. Since none of the entities have any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the County or its component unit.

**9. Net Assets/Fund Balances**

**Net Assets**

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statutes.

**Fund Balances**

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Note 1 - Summary of Significant Accounting Policies (continued):**

**D. Assets, Liabilities and Fund Equity (continued)**

**9. Net Assets/Fund Balances (continued)**

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

Reserved for inventories – portion of fund balance not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for encumbrances – portion of fund balance available to pay for any commitments related to purchase orders and contracts that remain unperformed at year-end.

Reserved by State statute – portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables that are not offset by deferred revenues.

Reserved for register of deeds – a portion of the fund balance constituting of the Automation Enhancement and Preservation Fund is funded by 10% of the fees collected and maintained by the register of deeds' office. The funds are available for appropriation but are legally restricted for computer and imaging technology in the register of deeds' office.

Reserved for E-911 – a portion of the E-911 telephone surcharge at December 31, 2007 that was transferred to the General Fund which represents the unspent portion of landline E-911 revenues reserved for E-911 expenditures.

Unreserved

Designated for subsequent year's expenditures – a portion of the total fund balance is available for appropriation that has been designated for the adopted 2009-2010 budget ordinance.

Undesignated – a portion of the total fund balance is available for appropriation that is uncommitted at year-end.

**Note 1 - Summary of Significant Accounting Policies (continued):**

**E. Reconciliation of Government-wide and Fund Financial Statements**

**1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The government fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

statement of net assets. The net adjustment of consists of several elements as follows:

<b>Description</b>	<b>Amount</b>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 113,754,890
Less accumulated depreciation	(21,344,747)
The pension assets resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not required in the funds	78,759
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements	73,225
Liabilities for revenue deferred but earned and therefore reported in the fund statements but not the government-wide	1,060,593
Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources.	367,916
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Other Postemployment liabilities	(81,754)
Bonds and installment financing	(82,203,271)
Compensated absences	(1,038,157)
Accrued interest payable	<u>(1,074,226)</u>
Total adjustment	<u>9,593,228</u>

**Note 1 - Summary of Significant Accounting Policies (continued):**

**2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of as follows:

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 37,663,350
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements	(1,614,894)
Loss on disposal of assets that is recorded in the statement of activities but not in the fund statements	(15,437)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide	4,778,137
The advance funding of pension obligations	6,841
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	(257,766)
Amortization of refunding costs not recorded on fund statements	(6,814)
Other postemployment benefits	(81,754)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(118,499)
New debt issued during the year is recorded as a source of funds on the fund statements; it has no effect on the statement of activities- it affects only the government-wide statement of net assets	(2,600,000)

Note 1 - **Summary of Significant Accounting Policies (continued):**

**E. Reconciliation of Government-wide and Fund Financial Statements (continued)**

**a. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:

Increase in deferred tax revenue for year ended 6/30/09	291,822
Increase in accrued interest receivable on taxes for year ended 6/30/09	<u>19,396</u>
Total adjustment	\$ <u>(38,064,382)</u>

**Note 2 - Stewardship, Compliance, and Accountability**

**A. Material Violations of Finance-Related Legal and Contractual Provisions**

**Noncompliance with North Carolina General Statutes**

There were no instances of noncompliance with North Carolina Statutes.

**Note 3 - Detail Notes on All Funds**

**A. Assets**

**1. Deposits**

All of the County's, AppalCART's, and the Authority's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the County's, AppalCART's, and the Authority's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, AppalCART, and the Authority's these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits.

**Note 3 - Detail Notes on All Funds (continued)**

**1. Deposits (continued)**

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County, AppalCART, or the Authority. Because of the inability to measure the exact amount of collateral pledged for the County, AppalCART, or the Authority, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State

# WATAUGA COUNTY, NORTH CAROLINA

## Notes to the Financial Statements For the Fiscal Year Ended June 30, 2009

Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces minimum capitalization for all pooling method financial institutions. The County AppalCART, and the Authority rely on the State Treasurer to monitor those financial institutions. The County analyzes the financial soundness of any other financial institution used by the County. The County complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The AppalCART and the Authority have no formal policy regarding custodial credit risk for deposits.

At June 30, 2009, the County's deposits had a carrying amount of \$40,181,271 and a bank balance of \$41,212,123. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$39,382 in non-interest bearing deposits and \$40,422,741 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2009 Watauga County had \$2,800 cash on hand.

At June 30, 2009, the AppalCART's deposits had a carrying amount of \$520,814 and a bank balance of \$543,423. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$293,423 in interest bearing deposits were covered by collateral held under the pooling method.

At June 30, 2009, AppalCaRT had \$150 cash on hand.

At June 30, 2009, the Authority's deposits had a carrying amount of \$1,215,882 and a bank balance of \$1,242,205. Of the balance, \$250,000 was covered by federal depository insurance and \$992,205 in interest bearing deposits were covered by collateral held under the pooling method.

## **2. Investments**

At June 30, 2009, the County's investments consisted of \$12,533,672 in the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating a AAAM by Standard & Poor's. The County has no policy on credit risk.

At June 30, 2009, the AppalCART's investments consisted of \$301,817 in the North Carolina Capital Management Trust's Cash Portfolio. The AppalCART has no policy on credit risk.

## **Note 3 - Detail Notes on All Funds (continued)**

### **3. Property Tax – Use – Value Assessment on Certain Lands**

In accordance with the general statutes, agriculture, horticulture, and forestland may be taxed by the County at the present-use value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years, along with the accrued interest from the original due date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

Year Levied	Tax	Interest	Total
2006	\$ 535,213	151,198	686,411
2007	616,480	118,672	735,152
2008	616,322	63,173	679,495
2009	<u>623,093</u>	<u>--</u>	<u>623,093</u>
Total	\$ <u>2,391,108</u>	<u>333,043</u>	<u>2,724,151</u>

**4. Receivables**

Receivables at the government-wide level at June 30, 2009, were as follows:

	Accounts	Taxes and Related Accrued Interest	Due from Other Governments	Total
Governmental Activities:				
General	\$ 845,448	1,582,790	2,358,778	4,787,016
Other Governmental	<u>651,451</u>	<u>152,616</u>	<u>--</u>	<u>804,067</u>
Total receivables	1,496,899	1,735,406	2,358,778	5,591,083
Allowance for doubtful accounts	<u>--</u>	<u>(458,158)</u>	<u>--</u>	<u>(458,158)</u>
Total-governmental activities	\$ <u>1,496,899</u>	<u>1,277,248</u>	<u>2,358,778</u>	<u>5,132,925</u>
Business-type activities				
Solid Waste	\$ 349,057	--	22,556	371,613
Allowance for doubtful accounts	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total-business-type activities	\$ <u>349,057</u>	<u>--</u>	<u>22,556</u>	<u>371,613</u>

**Note 3 - Detail Notes on All Funds (continued)**

**4. Receivables (continued)**

The due from other governments that is owed to the County consists of the following:

Assistant Secretary of Preparedness Response Grant	\$ 1,559
Local option sales tax	1,250,946
Scrap tire tax	12,160
Scrap Tire Grant	1,745
White goods tax	3,158
Solid Waste Disposal Tax	5,494

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

Lottery Proceeds	437,920
Public Schools Facilities Fund	4,618
Public School Capital Building Fund	163,998
Criminal Justice Partnership Program	15,717
County Administration	390,142
Individual – Living Link	1,580
Medicaid Hold Harmless	63,548
NC Dept. of Transportation Grant	19,519
Hazardous Materials Emergency Preparedness Grant	4,305
Homeland Shooter Grant	<u>4,925</u>
Total	\$ <u>2,381,334</u>

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,392,067	3,205,193	--	12,597,260
Construction in progress	<u>25,357,822</u>	<u>34,063,177</u>	<u>4,752,121</u>	<u>54,668,878</u>
Total capital assets not being depreciated	<u>34,749,889</u>	<u>37,268,370</u>	<u>4,752,121</u>	<u>67,266,138</u>
Capital assets being depreciated:				
Buildings	36,083,993	4,727,920	18,518	40,793,395
Other improvements	95,201	--	--	95,201
Equipment	3,616,841	250,472	142,605	3,724,708
Vehicles and motor equipment	<u>1,904,227</u>	<u>186,802</u>	<u>197,487</u>	<u>1,893,542</u>
Total capital assets being depreciated	<u>41,700,262</u>	<u>5,165,194</u>	<u>358,610</u>	<u>46,506,846</u>
Less accumulated depreciation for:				
Buildings	17,147,838	987,454	15,116	18,120,176
Improvements	35,801	4,345	--	40,146
Equipment	1,830,558	361,584	141,133	2,051,009
Vehicles and motor equipment	<u>1,058,790</u>	<u>261,511</u>	<u>186,885</u>	<u>1,133,416</u>
Total accumulated depreciation	<u>20,072,987</u>	<u>1,614,894</u>	<u>343,134</u>	<u>21,344,747</u>
Total capital assets being depreciated, net	<u>21,627,275</u>			<u>25,162,099</u>
Governmental activity capital assets, net	\$ <u>56,377,164</u>			<u>92,428,237</u>

Note 3 - **Detail Notes on All Funds (continued)**

**5. Capital Assets (continued)**

**Primary Government**

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 253,050
Public safety	660,994
Education	181
Economic and physical development	69,537
Human services	484,438

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

Cultural and recreational	<u>146,694</u>
Total depreciation expense	\$ <u>1,614,894</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,377,212	--	--	1,377,212
Construction in progress	<u>412,254</u>	<u>298,270</u>	<u>710,524</u>	<u>--</u>
Total capital assets not being depreciated	<u>1,789,466</u>	<u>298,270</u>	<u>710,524</u>	<u>1,377,212</u>
Capital assets being depreciated:				
Improvements	518,256	--	--	518,256
Buildings	3,000,081	729,042	21,993	3,707,130
Equipment	1,365,018	39,743	31,741	1,373,020
Vehicles	<u>1,152,294</u>	<u>83,932</u>	<u>31,121</u>	<u>1,205,105</u>
Total capital assets being depreciated	<u>6,035,649</u>	<u>852,717</u>	<u>84,855</u>	<u>6,803,511</u>
Less accumulated depreciation for:				
Improvements	307,573	13,260	--	320,833
Buildings	380,616	82,003	7,135	455,484
Equipment	1,062,887	39,357	31,741	1,070,503
Vehicles	<u>711,883</u>	<u>114,468</u>	<u>31,121</u>	<u>795,230</u>
Total accumulated depreciation	<u>2,462,959</u>	<u>249,088</u>	<u>69,309</u>	<u>2,642,050</u>
Total capital assets being depreciated, net	<u>3,572,690</u>			<u>4,161,461</u>
Business-type activities capital assets, net	\$ <u>5,362,156</u>			<u>5,538,673</u>

**Note 3 - Detail Notes on All Funds (continued)**

**5. Capital Assets (continued)**

**Construction commitments**

The government has active construction projects as of June 30, 2009. The projects include a new high school and soccer fields. At June 30, 2009, the government's commitments with contractors are as follows:

Project		Spent-to-date	Remaining Commitment
Brookshire Park	\$	1,727,646	214,979
Watauga High School		<u>52,941,232</u>	<u>21,153,383</u>



**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

being depreciated				
Less accumulated depreciation for:				
Furniture and fixtures	320	748	--	1,068
Computer equipment	<u>3,238</u>	<u>3,614</u>	--	<u>6,852</u>
Total accumulated depreciation	<u>3,558</u>	<u>4,362</u>	--	<u>7,920</u>
Total capital assets being depreciated, net	\$ <u>11,861</u>			<u>9,494</u>

**B. Liabilities**

**1. Payables**

Payables at the government-wide level at June 30, 2009, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total
Governmental activities:					
General	\$ 793,094	--	1,074,226	--	1,867,320
Capital projects	1,451,883	--	--	--	1,451,883
Other governmental	<u>124,200</u>	--	--	193	<u>124,393</u>
Total-governmental activities	<u>2,369,177</u>	--	<u>1,074,226</u>	<u>193</u>	<u>3,443,596</u>
Business-type activities:					
Solid Waste	\$ <u>228,206</u>	--	--	--	<u>228,206</u>

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**2. Pension Plan Obligations**

**a. Local Governmental Employees' Retirement System**

*Plan Description.* Watauga County contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.96% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of Watauga County are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2009, 2008, and 2007 were \$1,187,918, \$1,133,203, and \$1,040,592, respectively. The contributions made by the County equaled the required contributions for each year.

**b. Law Enforcement Officers' Special Separation Allowance**

***1. Plan Description***

Watauga County administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Separation Allowance is reported in the County's report as a fiduciary fund.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2008, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Active plan members	<u>46</u>
Total	<u>48</u>

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**2. Pension Plan Obligations (continued)**

**b. Law Enforcement Officers' Special Separation Allowance (continued)**

***2. Summary of Significant Accounting Policies:***

*Basis of Accounting.* Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the County has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* Investments are reported at fair value. Short-term money

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

market debt instruments, deposits, and repurchase agreements, are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

**3. Contributions**

The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the County contributed \$57,896, or 3.4% of covered payroll. There were no contributions made by employees.

The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid by the County.

The annual required contribution for the current year was determined as part of the December 31, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefits increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2008 was 22 years.

**3 Year Trend Information**

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 32,166	119.88 %	\$ (62,330)
2008	30,254	131.69	(71,918)
2009	23,908	128.61	(78,759)

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

Note 3 - **Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**2. Pension Plan Obligations (continued)**

**b. Law Enforcement Officers' Special Separation Allowance (continued)**

**4. *Funded Status and Funding Progress.***

As of December 31, 2008, the most recent actuarial valuation date, the plan was 65.57 percent funded. The actuarial accrued liability for benefits was \$244,637, and the actuarial value of assets was \$160,403, resulting in an unfunded actuarial accrued liability (UAAL) of \$84,234.

The covered payroll (annual payroll of active employees covered by the plan) was \$1,727,417, and the ratio of the UAAL to the covered payroll was 4.88 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**c. Supplemental Retirement Income Plan for Law Enforcement Officers**

*Plan Description.* The County contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the County. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401 (k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report maybe obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Article 12E of G.S. Chapter 143 required the County to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2009 were \$90,503, which consisted of \$83,407 from the County and \$7,096 from the law enforcement officers.

**d. Supplemental Retirement Income Plans for General Employees**

Employees, other than law enforcement, have the choice of participating in a 401(k) plan or a 457 deferred compensation plan. The County contributes 5.0 percent of each employee's salary to the plan of their choice. Employees may make elective deferrals to each plan. Contributions for the year ended June 30, 2009 to these plans were \$722,134 which consisted of \$526,844 from the County and \$195,290 from employees.

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**2. Pension Plan Obligations (continued)**

**e. Registers of Deeds' Supplemental Pension Fund**

*Plan Description.* Watauga County also contributes to the Register of Deeds' Supplemental Pension Fund, a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Registers of Deeds' Supplemental Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Registers of Deeds' Supplemental Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* On a monthly basis, the County remits to the Department of State Treasurer an amount equal to one and one-half percent (1.5%) of the monthly receipts collected pursuant to Article 1 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2009, the County's required and actual contributions were \$5,450.

**f. Other Postemployment Benefits – Watauga County**

**Health Benefits**

Under a County resolution as of September 1, 2001 Watauga County provides healthcare benefits through the Healthcare Benefits Plan (HCB Plan) as a single-employers defined benefit plan to cover retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System and have at least five years of creditable service with the County. The County has elected to partially pay the future overall cost of coverage for these benefits. The HCB Plan is available to qualified retirees at 100% until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

**Note 3 - Detail Notes on All Funds (continued)**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

**B. Liabilities (continued)**

**2. Pension Plan Obligations (continued)**

**f. Other Postemployment Benefits – Watauga County (continued)**

Membership of the HCB Plan consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	16	--
Terminated plan members entitled to but not yet receiving benefits	--	--
Active plan Members	<u>250</u>	<u>38</u>
Total	<u>266</u>	<u>38</u>

*Funding Policy* The Board of Commissioners established the contribution requirements of plan members and may be amended by the Board. Per a County resolution, the County is required to contribute the projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Board.

The current ARC rate is 1.13 of annual covered payroll. For the current year, the County contributed \$23,913 or .2% of annual covered payroll. The County obtains healthcare coverage through private insurers. There were no contributions made by employees. The County's obligation to contribute to HCB Plan is established and may be amended by the Board of Commissioners.

*Summary of Significant Accounting Policies.* The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Under a County resolution, the contributions are recognized when due and the County will provide the contributions to the HCB Plan. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. Short-term money market debt instruments, deposits, and repurchase agreements, are reported as cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price. Administration cost of the HCB Plan are financed through investment earnings.

*Annual OPEB Cost and Net OPEB Obligation.* The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contributions of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**2. Pension Plan Obligations (continued)**

**f. Other Postemployment Benefits – Watauga County (continued)**

The following table shows the components of the County’s annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the County’s net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$ 112,776
Interest on net OPEB obligation	--
Adjustment to annual required contribution	<u>    --</u>
Annual OPEB cost (expense)	112,776
Contributions made	<u>(51,555)</u>
Increase (decrease) in net OPEB obligation	61,221
Net OPEB obligation, beginning of year	<u>    --</u>
Net OPEB obligation, end of year	\$ <u>61,221</u>

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2009 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 112,776	45.7%	\$ 61,221

*Funded Status and Funding Progress.* As of December 31, 2007, the most recent actuarial valuation date, the plan was 22.73 percent funded. The actuarial accrued liability for benefits was \$1,432,288, and the actuarial value of assets was \$320,450, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,111,838. The covered payroll (annual payroll of active employees covered by the plan) was \$9,979,587, and the ratio of UAAL to the covered payroll was 11.1%.

Actuarial valuations of an ongoing plan involve estimated of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

**Note 3 - Detail Notes on All Funds (continued)**

WATAUGA COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

**B. Liabilities (continued)**

**2. Pension Plan Obligations (continued)**

**f. Other Postemployment Benefits – Watauga County (continued)**

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 7.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The rate included a 3.75 percent inflation assumption. The medical cost trend rate varied between 11.00 percent and 5.00 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected unit credit on a level percent of pay, open basis. The remaining amortization period at December 31, 2007, was 30 years.

**g. Other Employment Benefits**

**Death Benefits**

The County has elected to provide death benefits to all eligible employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not be less than \$25,000 and no more than \$50,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2009, the County made contributions to the State for death benefits of \$15,243. The County's required contributions for employees represented .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

**B. Liabilities (continued)**

**2. Pension Plan Obligations (continued)**

**h. Retirement System – AppalCART**

The AppalCART retirement plan is a money purchase plan through Jefferson Pilot Pension Life. Each employee who works 1,000 hours in the fiscal year will be eligible for an 8.25% of gross pay contribution in the retirement system. The vesting schedule after working 1,000 hours in each plan year is as follows:

<u>Years of Service</u>	<u>Percent Vested</u>
2	40%
3	60
4	80
5 or more	100

This rate of contribution is subject to change due to funding constraints. The contribution requirement for June 30, 2009 and 2008 amounted to \$87,452 and \$72,417, respectively. Payments of \$85,589 and \$73,244 were made for each fiscal year, respectively.

**3. Groundwater Contamination/Landfill Closure**

In March 1993, the County's engineers found groundwater contamination at the County's landfill site which exceeded State and Federal maximum contaminant levels for some constituents. On April 8, 1994, the County stopped accepting municipal solid waste at the County's landfill, and closure procedures were initiated. The County's engineers developed an assessment plan, which was approved by the NCDEHNR Solid Waste Management Division, to determine the extent, nature, and source of the contamination. The County installed groundwater monitoring wells in and around the landfill property to test for the presence of possible contaminants. On January 12, 1996, the County's engineers issued a Remedial Investigation and Alternative Report which proposed a remedial cap with some supplemental steps (including some continued assessment monitoring activities). In February 1996, the Board of Commissioners approved the engineer's proposal with some adjustments based on public comment. The County, after advertisement and bidding, awarded a contract for construction of the cap in May 1996. The approximate cost to date of the assessment and remedial cap is \$2,700,000. The capping project is complete and groundwater conditions remain stable. Groundwater testing continues, as required by NCDENR. Also, due to NCDENR directive, in fiscal year 2004/2005, a methane collection system was installed to prevent the potential for offsite migration. Further remedial actions are not anticipated unless groundwater conditions change.

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

**4. Deferred/Unearned Revenues**

The balance in deferred and unearned revenue on the fund statements and unearned revenues on the government-wide statements at year-end is composed of the following elements:

	Unearned or Deferred Revenue	Full Accrual Unearned Revenue
Prepaid taxes not yet earned (General)	\$ 19,437	162,294
Prepaid taxes not yet earned (Special Revenue)	941	1,664
Prepaid user fees not yet earned (Enterprise)	205,630	205,630
Taxes receivable, net (General)	1,069,774	--
Taxes receivable, net (Special Revenue)	<u>134,249</u>	<u>--</u>
Total	\$ <u>1,430,031</u>	<u>369,588</u>

**5. Risk Management**

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County participates in three self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these, pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$125.5 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, workers' compensation coverage up to the statutory limits, and health insurance for county employees. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. Two of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation. For health insurance, the county is reinsured through the Pool for individual losses in excess of \$50,000 and aggregate annual losses in excess of 115% of expected claims. The pool is reinsured through commercial carriers for individual losses in excess of \$100,000.

The County carries flood insurance through the National Flood Insurance Plan (NFIP). Because the County is an area of the State that has been mapped an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the County is eligible to purchase coverage of \$500,000 per structure through the NFIP. The County also is eligible to and has purchased commercial flood insurance for another \$692,000 for certain flood-prone structures. The County carries flood insurance to avoid possible significant loss.

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

**5. Risk Management (continued)**

In accordance with G.S. 159-29, the County's employees that have access to \$100 or more at any given time of the County's funds are covered by performance bonds through a commercial surety bond. The Finance Director, Tax Administrator, Register of Deeds, and County Manager are each individually bonded for \$50,000 each. The Sheriff is bonded for \$25,000.

The County carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

AppalCART is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical malpractice. The AppalCART carries commercial insurance for these risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The Watauga County District U Tourism Development Authority is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured with commercial companies that provide coverage for general liability in the amount of \$2,000,000.

**6. Contingent Liabilities**

At June 30, 2009, the County was a defendant in various lawsuits. In the opinion of the County's management and the County attorney, the ultimate effect of these legal matters will not have a material adverse effect on the County's financial position.

**7. Long-term Obligations**

**a. Capital Leases**

The County has no capital lease agreements.

**b. Installment Purchase**

As authorized by State law [G.S.160A-20 and 153A-158.1], the County financed various property acquisitions during previous years by installment purchase. The installment purchases were issued pursuant to security agreements that require that legal title remain with the County as long as the debt is outstanding.

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

**7. Long-term Obligations (continued)**

**b. Installment Purchase (continued)**

The County has seven installment purchases serviced by the general fund. The first installment purchase was executed on November 1, 1997, for the construction and renovation of the Human Services Center. On October 24, 2007, the loan terms were amended to reduce the interest rate from 5.2 percent to 3.84 percent annually for the remainder of the loan term. The loan terms now require quarterly principal and interest payments of \$70,337.

The second installment purchase was executed on December 1, 1998 for the renovation of the East Annex Building, and the construction of the new Watauga County Health Department, and requires forty quarterly principal and interest payments of \$51,219. This note was paid in full at June 30, 2009.

The third installment purchase was executed on April 30, 2004 for the renovation of existing structures to house the County's Law Enforcement Center. This installment purchase requires 60 quarterly principal payments of \$83,333 plus interest at 3.24 percent.

The fourth installment purchase was executed on November 3, 2005, for the purchase of the Brookshire Land. This installment purchase requires five annual payments of \$344,071 which includes interest at 4.75 percent.

The fifth and sixth installment purchase agreements were executed on April 10, 2008 to finance the construction of the new high school. One loan, for \$45 million, requires biannual interest payments at 4.17 percent and annual principal payments of \$2,250,000. The second loan, for \$25 million, requires biannual interest payments at 3.41 percent and a lump sum payment of \$25 million in June 2011.

The seventh installment purchase was executed on August 15, 2008 for the purchase of land for the Tweetsie Incentive Project. This installment purchase calls for quarterly principle payments of \$65,000 plus interest at 5.942 percent.

The County also has two installment purchases serviced by the Solid Waste Fund. The first installment purchase was executed on September 15, 2004 for the purchase of equipment and requires twelve quarterly payments of \$24,753 which includes interest at 2.60% compounded quarterly. This note was paid in full at June 30, 2009.

The second installment purchase was executed on September 6, 2007 to finance the purchase of equipment. The agreement requires 12 quarterly payments of \$46,084, which includes interest at 3.79 percent.

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**7. Long-term Obligations (continued)**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

**b. Installment Purchase (continued)**

For Watauga County, the future minimum payments as of June 30, 2009, including \$20,173,197 of interest, are:

Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2010	\$ 3,416,314	2,928,676	178,221	5,971
2011	28,441,314	2,783,600	45,640	409
2012	2,982,318	1,785,279	--	--
2013	2,843,333	1,663,514	--	--
2014	2,843,333	1,543,440	--	--
2015-2019	14,021,668	5,918,982	--	--
2020-2024	<u>20,250,000</u>	<u>4,222,125</u>	--	--
Principal payments	\$ <u>74,798,280</u>		<u>222,861</u>	
Total interest payments		\$ <u>20,845,616</u>		<u>6,380</u>

**c. General Obligation Indebtedness**

All general obligation bonds serviced by the County's general fund are collateralized by the full faith, credit, and taxing power of the County. Principal and interest payments are appropriated when due.

The County's general obligation bonds payable at June 30, 2009 are comprised of the following individual issues:

Serviced by the County's General Fund:

\$7,500,000 1993 School Facility Serial Bonds, due in semi-annual installments through June 1, 2014; interest at 4.40 percent	\$ 1,875,000
\$6,425,000 2001 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 3.00-4.25 percent	2,905,000
\$4,275,000 2004 General Obligation Bond Refunding, due in semi-annual installments through June 1, 2015; interest at 2.0-3.5 percent	<u>2,625,000</u>
Total	\$ <u>7,405,000</u>

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**7. Long-term Obligations (continued)**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

Annual debt service requirements to maturity for the County's general obligation bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 1,335,000	294,003
2011	1,275,000	242,728
2012	1,225,000	192,618
2013	1,215,000	142,700
2014	1,200,000	92,795
2015-2019	<u>1,155,000</u>	<u>43,125</u>
Total	\$ <u>7,405,000</u>	<u>1,007,968</u>

At June 30, 2009, Watauga County had a legal debt margin of \$682,029,168.

**d. Advance Refunding**

In December 2001, the County issued \$6,425,000 of general obligation advance refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of general resources for all future debt service payments of \$5,900,000 general obligation bonds. As a result, the refunded bonds are considered to be deceased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$282,135 and resulted in an economic gain of \$231,604.

In April 2004, the County issued \$4,275,000 of general obligation advance refunding bonds to provide resources to purchase U.S. government securities that were placed into an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,950,000 general obligation bonds. The refunding debt consists of \$3,950,000 1995 School Facility Serial Bonds (partially refunded for the maturities in the years 2005-2015). As a result the refunded bonds are considered to be deceased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$293,305 and resulted in an economic gain of \$279,411.

**Note 3 - Detail Notes on All Funds (continued)**

**B. Liabilities (continued)**

**7. Long-term Obligations (continued)**

**e. Long-Term Obligation Activity**

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

The following is a summary of changes in the County's long-term obligations for the fiscal year ended June 30, 2009:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Current Portion of Balance
Governmental activities:					
General obligation debt	\$ 8,755,000	--	1,350,000	7,405,000	1,335,000
Installment purchases	75,626,407	2,600,000	3,428,136	74,798,271	3,416,314
Compensated absences	919,658	798,002	679,503	1,038,157	--
Other postemployment benefits	--	56,323	--	56,323	--
Total governmental activities	<u>\$ 85,301,065</u>	<u>3,454,325</u>	<u>5,457,639</u>	<u>83,297,751</u>	<u>4,751,314</u>
Business-type activities:					
Installment purchases	\$ 419,982	--	196,121	223,861	178,222
Compensated absences	78,054	56,935	44,682	90,308	--
Other postemployment benefits	--	4,898	--	4,898	--
Total business-type activities	<u>\$ 498,036</u>	<u>61,833</u>	<u>240,803</u>	<u>319,067</u>	<u>178,222</u>
Discretely presented component units:					
Compensated absences – AppalCART	<u>\$ 53,809</u>	<u>52,446</u>	<u>46,647</u>	<u>59,608</u>	<u>59,608</u>
Compensated absences – Watauga County District U Tourism Development Authority	<u>\$ --</u>	<u>2,733</u>	<u>837</u>	<u>1,896</u>	<u>--</u>

For Watauga County and the Authority, compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned. For AppalCART, compensated absences are accounted for on the FIFO basis, assuming that employees are taking leave time that has been previously earned.

**Note 3 - Detail Notes on All Funds (continued)**

**C. Interfund Balances and Activity**

Transfers to/from other funds

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

Transfers to/from other funds at June 30, 2009, consists of the following:

From the General Fund to the Capital Reserve Fund to accumulate resources for future capital acquisitions	\$ 5,559,700
From the Capital Reserve Fund to the Special Revenue Fund to reimburse for a land Acquisition	400,000
From the Capital Reserve Fund to the General Fund for the new construction Projects	6,694,730
From the Solid Waste Fund to the Debt Service Fund for debt service payments owed to the General Fund	78,470
From the Watauga High School Capital Project Fund to the Capital Reserve Fund for repayment of advanced funds	240,143
From the Watauga High School Capital Project Funds to the General Fund for repayment of advanced funds	<u>3,878,951</u>
Total	\$ <u>16,851,994</u>

**Note 4 - Joint Ventures**

The County participates in a joint venture to operate Appalachian Regional Library with two other local governments. Each participating government appoints four board members to the twelve-member Board of the Library. The County has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2009. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$510,310 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's offices at 148 Library Drive, West Jefferson, NC 28694.

The County, in conjunction with Ashe and Alleghany Counties, participates in a joint venture to operate the Appalachian District Health Department. Each participating government appoints one board member to the Governing Board and they in turn appoint the other members of the Governing Board.

**Note 4 - Joint Ventures (continued)**

None of the participating governments have any equity interest in the Health Department, so no equity interest has been reflected in the financial statements at June 30, 2009. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$584,413 to the Health Department to supplement its activities. Complete financial statements for the Health Department can be obtained from the Health Department's offices at 126 Poplar Grove Connector Road, Boone, NC 28607.

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2009

The County also participates in a joint venture to operate New River Behavioral Health Center with four other local governments. Each participating government appoints one County Commissioner to the Governing Board and they in turn appoint the other members. None of the participating governments have any equity interest in the Behavioral Health Center Department, so no equity interest has been reflected in the financial statements at June 30, 2009. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$306,602 to the Behavioral Health Care Department to supplement its activities. Complete financial statements for the Behavioral Health Care Department can be obtained at 895 State Farm Road, Suite 508, Boone, NC 28607.

**Note 5 - Jointly Governed Organization**

The County communally governs Caldwell Community College and Technical Institute with one other government and the community college system of the State of North Carolina. The County appoints two members of its fourteen members Board of Trustees. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$761,754 to Caldwell Community College and Technical Institute to supplement its activities. Complete financial statements for the College can be obtained at 2855 Hickory Boulevard, Hudson, NC, 28638.

**Note 6 - Benefit Payments Issued by the State**

The amounts listed below were paid directly to individual recipients by the State from federal and State moneys. County personnel are involved with certain functions, primarily eligibility determinations that cause benefit payments to be issued by the State. These amounts disclose this additional aid to County recipients that do not appear in the basic financial statements because they are not revenues and expenditures of the County.

	<u>Federal</u>	<u>State</u>
Temporary assistance to need families	\$ 88,306	--
Medicaid	18,362,427	7,136,881
Food stamp program	2,815,199	--
Energy assistance	154,683	--
Adoption assistance	198,465	39,279
Adoption subsidy	--	73,625
Adult assistance	--	283,967
Title IV-E, Foster care	104,196	15,154
Links	3,450	--
Total	\$ <u>21,726,726</u>	<u>7,548,906</u>

**Note 7 - Summary Disclosure of Significant Commitments and Contingencies**

**Federal and State Assisted Programs**

The County has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies.

**WATAUGA COUNTY, NORTH CAROLINA**

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

**Note 8 - Interest on Unpaid Motor Vehicle Taxes**

In 2005, the North Carolina General Assembly enacted House Bill #1779, which increased the first month interest due on delinquent motor vehicle taxes from 2 percent to 5 percent, beginning January 1, 2006. The additional interest was to be collected by the counties which levied the taxes and remitted to the Department of State Treasurer the 10<sup>th</sup> of every month, for use by the Division of Motor Vehicles to create a combined registration and collection system.

The following reports the total collections and disbursements of the interest collected by Watauga County for the fiscal year ending June 30, 2009:

Beginning balance	\$ 820
Total interest collected:	11,668
Total interest remitted	<u>11,609</u>
Amount due to Department of State Treasurer as of June 30, 2009	\$ <u>879</u>

**Note 9 - Prior Period Adjustments**

During the fiscal year ended June 30, 2009 the County determined that the other taxes and licenses reported in the E-911 Telephone Surcharge Fund had been overstated in the prior years. Therefore, an adjustment to the beginning fund balance of the E-911 Telephone Surcharge Fund has been recorded to correct these oversights reported in prior years.

Also during the year, the County determined that some revenues in the General Fund had been overstated in the prior years. Therefore an adjustment to the General Fund has been made to reflect these corrections. It was also determined that the Health Benefits Fund had been incorrectly treated as an agency fund. The monies held should be treated as a reservation of fund balance in the General Fund; therefore, an adjustment has been recorded to transfer these monies into the General Fund.

## Required Supplemental Financial Data

This section contains additional information required by generally accepted accounting principles.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Postemployment Benefits
- Schedule of Employer Contributions for the Other Postemployment Benefits
- Notes to the Required Schedules for the Other Postemployment Benefits

**WATAUGA COUNTY, NORTH CAROLINA**  
 Law Enforcement Officers' Special Separation Allowance  
 Required Supplementary Information  
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Reserved Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll for Year Ending on Val Date (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2003	\$ 95,840	330,741	234,901	28.98 %	1,025,616	22.90 %
12/31/2004	105,840	318,853	213,013	33.19	1,089,341	19.55
12/31/2005	121,075	314,210	193,135	38.53	1,320,159	14.63
12/31/2006	131,075	305,327	174,252	42.93	1,456,052	11.97
12/31/2007	146,330	253,515	107,185	57.72	1,493,567	7.18
12/31/2008	160,403	244,637	84,234	65.57	1,727,417	4.88

**WATAUGA COUNTY, NORTH CAROLINA**  
Law Enforcement Officers' Special Separation Allowance  
Required Supplementary Information  
Schedule of Employer Contributions

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<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	
2001	\$ 15,203	100	%
2002	24,419	100	
2003	27,067	100	
2004	30,843	100	
2005	30,962	100	
2006	32,874	100	
2007	30,943	100	
2008	24,577	100	
2009	27,043	100	

**Watauga County**  
**Law Enforcement Officers' Special Separation Allowance Schedule 3**  
**Required Supplementary Information**  
**Notes to the Required Schedules**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/08
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	22 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5 – 12.3%
Includes inflation at	3.75%
Cost of living adjustments	N/A

**Watauga County, North Carolina  
Other Postemployment Benefits  
Required Supplementary Information  
Schedule of Funding Progress and  
Schedule of Employer Contributions**

**Schedule of Funding Progress:**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) ( b – a )	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/07	\$320,450	\$1,432,288	\$1,111,838	22.4%	\$9,979,587	11.1%

**Schedule of Employer Contributions:**

Year Ending June 30	Annual Required Contributions	Percentage Contributed
2009	112,776	45.7%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/07
Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of Assets
Actuarial assumptions:	
Investment rate of return*	7.00%
Medical cost trend	11.00 – 5.00%
*Includes inflation at	3.75%

## Combining and Individual Fund Statements and Schedules

**Watauga County, North Carolina**  
**General Fund**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE -- BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2009**

	Budget	2009 Actual	Variance
<b>Revenues:</b>			
Taxes - ad valorem:			
Current year	\$	26,203,052	
Prior years		379,447	
Advertising and interest		120,328	
Total Taxes - ad valorem	<u>26,397,552</u>	<u>26,702,827</u>	<u>305,275</u>
Local Option Sales Taxes:			
Article 39 and 44		6,802,641	
Article 40 one-half of one percent		1,942,394	
Article 42 one-half of one percent		1,934,627	
Medicaid Hold Harmless payment		327,171	
Total Taxes - Local Option Sales	<u>12,520,293</u>	<u>11,006,833</u>	<u>(1,513,460)</u>
Taxes - other:			
Real estate transfer tax		354,128	
ABC - .05/bottle		18,813	
Gross receipts tax - county		30,301	
Other		320,148	
Total Taxes - other	<u>800,000</u>	<u>723,390</u>	<u>(76,610)</u>
Unrestricted intergov. rev.:			
Payments in lieu of taxes		30,040	
Total Unrestricted intergov. rev.	<u>13,000</u>	<u>30,040</u>	<u>17,040</u>
Restricted intergov. revenues:			
Grants-Federal & State		4,082,132	
Public School Facility Funds		168,616	
Public School Building Capital Fund - lottery		437,920	
POA-Town of Boone		3,911	
Court facilities fees		145,033	
Total Restricted intergov. revenues	<u>4,487,099</u>	<u>4,837,612</u>	<u>350,513</u>
Permits and fees:			
Gun permits		44,447	
Serving civil summons		51,604	
Jail and officer fees		29,206	
Planning and inspection fees		230,059	
Marriage license		8,797	
Register of deeds fees		341,061	
Fire inspection fees		3,122	
Occupancy tax administrative fee		17,783	
Total Permits and fees	<u>969,025</u>	<u>726,079</u>	<u>(242,946)</u>
Sales and service:			
POA In-home svc. - soc. serv.		15,339	
Recreation department revenues		298,768	
Sales of tax maps		822	
Data processing fees		287	
Copy revenue		7,951	
NC DMV fees		101,324	
NC reimbursement for prisoners		79,073	
Tax collection fees-Towns		106,581	
Jail medical service		6,034	
Passport processing fees		25,054	
Other		89,576	
Total Sales and service	<u>793,857</u>	<u>730,809</u>	<u>(63,048)</u>
Investment earnings:			
Interest earned on investments	432,777	277,758	(155,019)
Miscellaneous:	363,887	388,489	24,602
<b>TOTAL REVENUES</b>	<u>46,777,490</u>	<u>45,423,837</u>	<u>(1,353,653)</u>

**Watauga County, North Carolina**  
**General Fund**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE -- BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2009**

	2009		Variance
	Budget	Actual	
<b>EXPENDITURES:</b>			
<b>General Government</b>			
Governing body:			
Operating expenses	68,830	54,617	14,213
Administration:			
Salaries and benefits		406,885	
Operating expenses		9,988	
Total Administration	429,544	416,873	12,671
Finance:			
Salaries and benefits		383,865	
Operating expenses		48,504	
Total Finance	471,274	432,369	38,905
Tax Supervisor:			
Salaries and benefits		1,081,268	
Operating expenses		92,477	
Capital Outlay		295,588	
Total Tax Supervisor	2,259,400	1,469,333	790,067
Tax Revaluation:			
Salaries and benefits		44,538	
Operating expenses		72,150	
Total Tax Revaluation	323,283	116,688	206,595
Tag office:			
Salaries and benefits		175,630	
Operating expenses		4,223	
Total Tag office	187,237	179,853	7,384
Legal Services:			
Operating expenses	51,000	40,642	10,358
Court facilities:			
Operating expenses	3,000	1,452	1,548
Elections:			
Salaries and benefits		213,822	
Operating expenses		97,806	
Capital outlay		39,771	
Total Elections	437,401	351,399	86,002
Register of Deeds:			
Salaries and benefits		414,713	
Operating expenses		75,913	
Total Register of Deeds	567,843	490,626	77,217
General administration:			
Operating expenses	1,988,423	671,697	1,316,726
Information technologies:			
Salaries and benefits		277,120	
Operating expenses		242,524	
Capital outlay		98,710	
Total Information technologies	745,725	618,354	127,371

**Watauga County, North Carolina**  
**General Fund**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE -- BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2009**

	Budget	2009 Actual	Variance
Maintenance:			
Salaries and benefits		1,022,614	
Operating expenses		46,233	
Total Maintenance	1,156,563	1,068,847	87,716
Public Buildings			
Courthouse:			
Operating expenses		110,085	
Capital Outlay		191,405	
Total Courthouse	586,835	301,490	285,345
East Courthouse Annex:			
Operating expenses	119,287	28,947	90,340
Administration Building:			
Operating expenses	23,612	19,403	4,209
Emergency Management:			
Operating expenses	1,150	160	990
Hannah:			
Operating expenses	5,564	5,413	151
Animal Shelter:			
Operating expenses	25,330	16,225	9,105
Old Cove Creek School:			
Operating expenses	204,857	30,045	174,812
New Health Department:			
Operating expenses	64,429	49,764	14,665
Public Building-APPALCART:			
Operating expenses	3,051	1,990	1,061
New Library:			
Operating expenses	102,683	56,223	46,460
Tag office:			
Operating expenses	47,606	40,151	7,455
Caldwell College & Tech. Inst:			
Operating expenses	44,300	34,140	10,160
Watauga Comm. Center:			
Operating expenses	83,015	77,838	5,177
New Law Enforcement Center:			
Operating expenses		139,792	
Capital outlay		4,543	
Total New Law Enforcement Center	177,648	144,335	33,313
Law Enforcement Center:			
Operating expenses		4,234	
Capital outlay		33,335	
Total Law Enforcement Center	42,048	37,569	4,479
West Courthouse Annex:			
Operating expenses	54,797	38,883	15,914
Human Services Center:			
Operating expenses	106,850	73,357	33,493

**Watauga County, North Carolina**  
**General Fund**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE -- BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2009**

	Budget	2009 Actual	Variance
Appalachian Enterprise Center:			
Operating expenses		11,874	
Capital outlay		24,702	
Total Appalachian Enterprise Center	41,347	36,576	4,771
Recreation Administration Center:			
Operating expenses	6,112	1,556	4,556
Aquatics Center:			
Operating expenses		115,250	
Capital outlay		9,220	
Total Aquatics Center	209,313	124,470	84,843
Opt./Maintenance Facility:			
Operating expenses	38,873	33,892	4,981
Recreation Fields/Parks:			
Operating expenses		47,296	
Capital outlay		249,319	
Total recreation fields/parks	325,198	296,615	28,583
Brookshire Park:			
Operating expenses		12,621	
Capital outlay		418,197	
Total Brookshire Park	585,994	430,818	155,176
Anne Marie Drive Fields:			
Operating expenses	15,825	9,482	6,343
Brookshire Soccer Complex:			
Operating expenses		7,250	
Capital outlay		7,800	
Total Brookshire Soccer Complex	37,251	15,050	22,201
Total Public Buildings	2,952,975	1,904,392	1,048,583
<b>Total General Government</b>	<b>11,642,498</b>	<b>7,817,142</b>	<b>3,825,356</b>
<b>Public Safety</b>			
Sheriff's department:			
Salaries and benefits		2,436,558	
Operating expenses		270,208	
Capital outlay		210,155	
Total Sheriff's department	2,998,090	2,916,921	81,169
Communications:			
Salaries and benefits		451,183	
Operating expenses		29,770	
Capital outlay		51,608	
Total Communications	553,331	532,561	20,770
COPS Program - DEC Grant:			
Operating expenses		590	
Capital outlay		11,298	
Total COPS Program - DEC Grant	22,450	11,888	10,562
Domestic Violence-NCDCCPS:			
Salaries and benefits		45,561	
Operating expenses		1,241	
Total Domestic Violence-NCDCCPS	48,486	46,802	1,684
Jail:			
Salaries and benefits		1,243,077	
Operating expenses		445,011	
Capital outlay		7,747	
Total Jail	1,922,722	1,695,835	226,887

**Watauga County, North Carolina**  
**General Fund**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE -- BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2009**

	Budget	2009 Actual	Variance
Emerg. Mgt. & Fire Protect.:			
Salaries and benefits		220,392	
Operating expenses		446,052	
Capital outlay		31,360	
<b>Total Emerg. Mgt. &amp; Fire Protect.</b>	<b>711,041</b>	<b>697,804</b>	<b>13,237</b>
Planning and Inspections:			
Salaries and benefits		647,210	
Operating expenses		131,845	
<b>Total Planning and Inspections</b>	<b>930,849</b>	<b>779,055</b>	<b>151,794</b>
Medical examiner:			
Operating expenses	35,500	35,500	--
Ambulance and rescue squad:			
Operating expenses	922,412	893,412	29,000
Animal control:			
Salaries and benefits		123,796	
Operating expenses		43,884	
<b>Total Animal control</b>	<b>198,232</b>	<b>167,680</b>	<b>30,552</b>
Forestry:			
Operating expenses	48,253	43,843	4,410
<b>Total Public Safety</b>	<b>8,391,366</b>	<b>7,821,301</b>	<b>570,065</b>
<b>Economic &amp; Physical Development</b>			
Elderly & Disabled Transportation:			
Operating expenses	197,872	197,872	--
Special Appropriations:	465,036	464,949	87
Economic Development:			
Operating expenses	77,978	75,228	2,750
Cooperative extension:			
Salaries and benefits		196,841	
Operating expenses		17,064	
<b>Total Cooperative extension</b>	<b>265,168</b>	<b>213,905</b>	<b>51,263</b>
Soil conservation:			
Salaries and benefits		103,188	
Operating expenses		14,662	
<b>Total Soil conservation</b>	<b>154,894</b>	<b>117,850</b>	<b>37,044</b>
<b>Total Economic &amp; Physical Development</b>	<b>1,160,948</b>	<b>1,069,804</b>	<b>91,144</b>
<b>Human Services</b>			
Public health:			
Operating expenses	584,413	584,413	--
Mental health:			
Operating expenses	307,759	306,602	1,157
Social services - admin.:			
Salaries and benefits		2,573,448	
Operating expenses		359,787	
Capital outlay		26,340	
<b>Total Social services - admin.</b>	<b>3,038,073</b>	<b>2,959,575</b>	<b>78,498</b>
Beneficiary payments:	1,517,281	1,476,373	40,908

**Watauga County, North Carolina**  
**General Fund**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE -- BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2009**

	Budget	2009 Actual	Variance
State foster care and daycare			
Room & Board		6,000	
Other		1,361	
Purchase-daycare XX		826,422	
Total State foster care and daycare	853,348	833,783	19,565
Project on aging:			
Salaries and benefits		1,062,855	
Operating expenses		252,563	
Total Project on aging	1,410,899	1,315,418	95,481
Veterans service officer:			
Salaries and benefits		103,978	
Operating expenses		4,137	
Total Veterans service officer	108,558	108,115	443
<b>Total Human Services</b>	<b>7,820,331</b>	<b>7,584,279</b>	<b>236,052</b>
<b>Education</b>			
Public Schools - current		11,150,734	
Public Schools - capital outlay		1,404,510	
Community College - current		761,754	
Community College - capital outlay		889,730	
<b>Total Education</b>	<b>14,449,241</b>	<b>14,206,728</b>	<b>242,513</b>
<b>Cultural and recreational</b>			
Library:			
Operating expenses	516,046	510,310	5,736
Recreation:			
Salaries and benefits		573,014	
Operating expenses		106,583	
Total Recreation	722,248	679,597	42,651
Aquatics:			
Salaries and benefits		190,041	
Operating expenses		15,603	
Total Aquatics	212,969	205,644	7,325
Recreation - Maintenance:			
Operating expenses	13,930	13,126	804
<b>Total Cultural and recreational</b>	<b>1,465,193</b>	<b>1,408,677</b>	<b>56,516</b>
<b>Debt Service</b>			
Principal retirement		4,778,137	
Interest & fees		3,372,801	
<b>Total Debt Service</b>	<b>8,164,836</b>	<b>8,150,938</b>	<b>13,898</b>
<b>TOTAL EXPENDITURES</b>	<b>53,094,413</b>	<b>48,058,869</b>	<b>5,035,544</b>
Excess (deficiency) of revenues over expenditures	(6,316,923)	(2,635,032)	3,681,891
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers to Capital Reserve Fund	(5,559,700)	(5,559,700)	--
Transfers from Capital Projects Fund	--	3,878,951	3,878,951
Transfers from Capital Reserve Fund	6,694,730	6,694,730	--
Transfers from Solid Waste Fund	78,470	78,470	--
Fund Balance Appropriated	5,103,423	--	(5,103,423)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>6,316,923</b>	<b>5,092,451</b>	<b>(1,224,472)</b>
Excess (deficiency) of revenues over expenditures & other sources (uses) \$	--	2,457,419	2,457,419
Fund balances at beginning of year		20,772,713	
Prior period adjustments to adjust accounts receivable to actual		242,440	
Fund balances at end of year		<u>\$ 23,472,572</u>	

**Watauga County, North Carolina**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2009**

<b>Special Revenue Funds</b>								
	<b>Substance Abuse Tax Fund</b>	<b>E-911 Telephone Surcharge Fund</b>	<b>Fire Districts Fund</b>	<b>Revaluation Fund</b>	<b>Occupancy Tax Fund</b>	<b>CDBG Scattered Site Housing Fund</b>	<b>Tweetsie Incentive Project</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS:</b>								
Cash and cash equivalents	\$ 180,842	619,666	17,996	2,823	--	3,350	--	824,677
Accounts receivable, net	--	33,183	--	--	62,837	--	--	96,020
Taxes receivable, net	--	--	135,261	--	--	--	--	135,261
<b>Total assets</b>	<b>\$ 180,842</b>	<b>652,849</b>	<b>153,257</b>	<b>2,823</b>	<b>62,837</b>	<b>3,350</b>	<b>--</b>	<b>1,055,958</b>
<b>LIABILITIES AND FUND BALANCE</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	3,897	36,313	17,996	--	62,644	3,350	--	124,200
Deferred revenue	--	--	135,261	--	--	--	--	135,261
Due to other funds	--	--	--	--	193	--	--	193
<b>Total Liabilities</b>	<b>3,897</b>	<b>36,313</b>	<b>153,257</b>	<b>--</b>	<b>62,837</b>	<b>3,350</b>	<b>--</b>	<b>259,654</b>
<b>Fund Balances:</b>								
Reserved by state statute	--	33,183	--	--	--	--	--	33,183
Unreserved	176,945	583,353	--	2,823	--	--	--	763,121
<b>Total fund balances</b>	<b>176,945</b>	<b>616,536</b>	<b>--</b>	<b>2,823</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>796,304</b>
<b>Total liabilities and fund balances</b>	<b>\$ 180,842</b>	<b>652,849</b>	<b>153,257</b>	<b>2,823</b>	<b>62,837</b>	<b>3,350</b>	<b>--</b>	<b>1,055,958</b>

Watauga County, North Carolina  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2009

Special Revenue Funds								
	Substance Abuse Tax	E-911 Telephone Surcharge	Fire Districts Fund	Revaluation Funds	Occupancy Tax Fund	Scattered Site Housing Fund	Tweetsie Incentive Project	Total Nonmajor Governmental Funds
<b>REVENUES</b>								
Ad valorem taxes	\$ --	--	2,547,029	--	--	--	--	2,547,029
Other taxes and licenses	--	--	--	--	778,309	--	--	778,309
Restricted intergovernmental	29,953	398,243	--	--	--	68,404	200,000	696,600
Investment earnings	2,123	6,334	--	33	--	--	--	8,490
Donations	6,594	--	--	--	--	--	--	6,594
Total revenues	<u>38,670</u>	<u>404,577</u>	<u>2,547,029</u>	<u>33</u>	<u>778,309</u>	<u>68,404</u>	<u>200,000</u>	<u>4,037,022</u>
<b>EXPENDITURES</b>								
Current:								
General government	--	--	--	--	778,309	--	--	778,309
Public safety	26,142	358,565	2,547,029	--	--	68,404	--	3,000,140
Capital outlay	--	14,017	--	--	--	--	3,200,000	3,214,017
Total expenditures	<u>26,142</u>	<u>372,582</u>	<u>2,547,029</u>	<u>--</u>	<u>778,309</u>	<u>68,404</u>	<u>3,200,000</u>	<u>6,992,466</u>
Excess (deficiency) of revenues over expenditures	<u>12,528</u>	<u>31,995</u>	<u>--</u>	<u>33</u>	<u>--</u>	<u>--</u>	<u>(3,000,000)</u>	<u>(2,955,444)</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds from installment purchase contracts	--	--	--	--	--	--	2,600,000	2,600,000
Transfers to (from) other funds	--	--	--	--	--	--	400,000	400,000
Total other financing sources and uses	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,000,000</u>	<u>3,000,000</u>
Net change in fund balances	12,528	31,995	--	33	--	--	--	44,556
Fund balances - beginning	164,417	618,820	--	2,790	--	--	--	786,027
Prior period adjustment	--	(34,279)	--	--	--	--	--	(34,279)
Fund balances - ending	<u>\$ 176,945</u>	<u>616,536</u>	<u>--</u>	<u>2,823</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>796,304</u>

**WATAUGA COUNTY, NORTH CAROLINA**  
 Substance Abuse Tax Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2009

	2009		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Restricted intergovernmental	\$ 26,645	29,953	3,308
Investment Earnings	--	2,123	2,123
Donations	--	6,594	6,594
	<b>26,645</b>	<b>38,670</b>	<b>12,025</b>
<b>Expenditures:</b>			
Public Safety	26,645	26,142	503
	<b>26,645</b>	<b>26,142</b>	<b>503</b>
Excess (deficiency) of revenues over expenditures	\$ --	12,528	12,528
<b>Fund balance at beginning of year</b>		<b>164,417</b>	
<b>Fund balance at end of year</b>		<b>\$ 176,945</b>	

**WATAUGA COUNTY, NORTH CAROLINA**  
 E-911 Telephone Surcharge Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2009

	2009		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Restricted intergovernmental:			
Wireless 911 funds	\$ 400,000	398,243	(1,757)
Town of Boone	7,041	--	(7,041)
Investment earnings	--	6,334	6,334
	<u>407,041</u>	<u>404,577</u>	<u>(2,464)</u>
<b>Total revenues</b>			
<b>Expenditures:</b>			
Public safety:			
Salaries and employee benefits	53,938	53,383	555
Operating expenses	477,146	305,182	171,964
Capital outlay	34,362	14,017	20,345
	<u>565,446</u>	<u>372,582</u>	<u>192,864</u>
<b>Total expenditures</b>			
Excess (deficiency) of revenues over expenditures	<u>(158,405)</u>	<u>31,995</u>	<u>190,400</u>
<b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	<u>158,405</u>	<u>--</u>	<u>(158,405)</u>
Excess (deficiency) of revenues and appropriated fund balance over expenditures	<u>\$ --</u>	<u>31,995</u>	<u>31,995</u>
<b>Fund balance at beginning of year</b>		618,820	
<b>Prior period adjustment to correct prior year revenues</b>		<u>(34,279)</u>	
<b>Fund balance at end of year</b>		<u>\$ 616,536</u>	

**WATAUGA COUNTY, NORTH CAROLINA**  
 Fire Districts Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2009

	2009		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Ad valorem taxes	\$ 2,580,817	2,547,029	(33,788)
<b>Total revenues</b>	<b>2,580,817</b>	<b>2,547,029</b>	<b>(33,788)</b>
<b>Expenditures:</b>			
Public safety:			
Beaver Dam Fire District	114,146	111,875	2,271
Blowing Rock Fire District	445,498	441,475	4,023
Boone Fire District	552,491	538,496	13,995
Cove Creek Fire District	214,098	211,158	2,940
Deep Gap Fire District	175,068	172,861	2,207
Foscoe Fire District	436,033	432,449	3,584
Meat Camp Fire District	125,189	123,193	1,996
Meat Camp/Creston Fire District	4,097	3,717	380
Shawneehaw Fire District	90,465	87,418	3,047
Stewart Simmons Fire District	202,176	202,914	(738)
Todd Fire District	43,271	42,962	309
Zionville Fire District	108,795	108,921	(126)
Beech Mountain Fire Service District	1,551	1,230	321
Cove Creek Fire Service District	302	301	1
Foscoe Fire Service District	63,304	62,950	354
Shawneehaw Fire Service District	4,333	5,109	(776)
Total expenditures	<b>2,580,817</b>	<b>2,547,029</b>	<b>33,788</b>
Excess (deficiency) of revenues over expenditures	<b>\$ --</b>	<b>--</b>	<b>--</b>
<b>Fund balance at beginning of year</b>		<b>--</b>	
<b>Fund balance at end of year</b>		<b>\$ --</b>	

**WATAUGA COUNTY, NORTH CAROLINA**  
 Revaluation Fund  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2009

	2009		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Investment earnings	\$ --	33	33
<b>Expenditures:</b>			
General government	--	--	--
Excess (deficiency) of revenues over expenditures	--	33	33
<b>Other Financing Sources (Uses):</b>			
Transfer to other funds	--	--	--
Appropriated fund balance	--	--	--
Total other financing sources	--	--	--
Excess (deficiency) of revenues and appropriated fund balance over expenditures	\$ --	33	33
<b>Fund balance at beginning of year</b>		2,790	
<b>Fund balance at end of year</b>		\$ 2,823	

**WATAUGA COUNTY, NORTH CAROLINA**  
Occupancy Tax Fund  
Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2009

	2009		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Other taxes and licenses	\$ 744,500	778,309	33,809
<b>Total revenues</b>	744,500	778,309	33,809
<b>Expenditures:</b>			
Tourism Development	725,000	760,526	(35,526)
Administrative fee	19,500	17,783	1,717
<b>Total expenditures</b>	744,500	778,309	(33,809)
Excess (deficiency) of revenues over expenditures	\$ --	--	--
<b>Fund balance at beginning of year</b>		--	
<b>Fund balance at end of year</b>		\$ --	

**WATAUGA COUNTY, NORTH CAROLINA**  
 CDBG Scattered Site Housing  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance - Budget and Actual  
 For the Fiscal Year Ended June 30, 2009

	2009				
	Project Authorization	Prior Year	Actual	Total to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Restricted intergovernmental	\$ 400,000	325,373	68,404	393,777	(6,223)
<b>Total revenues</b>	400,000	325,373	68,404	393,777	(6,223)
<b>Expenditures:</b>					
Residence rehabilitation	356,500	288,873	58,404	347,277	9,223
Grant administration	43,500	36,500	10,000	46,500	(3,000)
<b>Total expenditures</b>	400,000	325,373	68,404	393,777	6,223
Excess (deficiency) of revenues over expenditures	\$ --	--	--	--	--
<b>Fund balance at beginning of year</b>			--		
<b>Fund balance at end of year</b>		\$	--		

**WATAUGA COUNTY, NORTH CAROLINA**  
Tweetsie Incentive Project  
Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2009

	2009		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Contribution from Watauga District Tourism Development Authority	\$ 200,000	200,000	--
<b>Total revenues</b>	<u>200,000</u>	<u>200,000</u>	--
<b>Expenditures:</b>			
Capital outlay	3,200,000	3,200,000	--
<b>Total expenditures</b>	<u>3,200,000</u>	<u>3,200,000</u>	--
Excess (deficiency) of revenues over expenditures	<u>3,000,000</u>	<u>3,000,000</u>	--
<b>Other Financing Sources (uses):</b>			
Transfer from Capital Reserve Fund	400,000	400,000	--
Proceeds from installment purchase contract	<u>2,600,000</u>	<u>2,600,000</u>	--
<b>Total other financing sources (uses)</b>	<u>3,000,000</u>	<u>3,000,000</u>	--
Excess (deficiency) of revenues over expenditures	\$ <u>          </u> --	--	--
<b>Fund balance at beginning of year</b>		--	
<b>Fund balance at end of year</b>		\$ <u>          </u> --	

**WATAUGA COUNTY, NORTH CAROLINA**  
Watauga High School Capital Project  
Statement of Revenues and Expenditures and Changes in  
Fund Balance - Budget and Actual  
From Inception and For the Fiscal Year Ended June 30, 2009

	Budget	Prior Years	Actual Current Year	Total-to Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Investment earnings	\$ 746,000	267,545	322,445	589,990	(156,010)
Other revenues	1,024,000	--	570,233	570,233	(453,767)
<b>Total Revenues</b>	<u>1,770,000</u>	<u>267,545</u>	<u>892,678</u>	<u>1,160,223</u>	<u>(609,777)</u>
<b>Expenditures:</b>					
Capital Projects	74,094,615	19,803,531	33,137,701	52,941,232	21,153,383
Excess (deficiency) of revenues over expenditures	<u>(72,324,615)</u>	<u>(19,535,986)</u>	<u>(32,245,023)</u>	<u>(51,781,009)</u>	<u>20,543,606</u>
<b>Other financing sources (uses):</b>					
Operating transfers - in (out):					
From Capital Reserve Fund	--	240,143	(240,143)	--	--
From General Fund	2,324,615	6,203,566	(3,878,951)	2,324,615	--
Loan proceeds	70,000,000	70,000,000	--	70,000,000	--
<b>Total other financing sources (uses)</b>	<u>72,324,615</u>	<u>76,443,709</u>	<u>(4,119,094)</u>	<u>72,324,615</u>	<u>--</u>
Increase (decrease) in fund balance	\$ <u><u>--</u></u>	<u><u>56,907,723</u></u>	<u><u>(36,364,117)</u></u>	<u><u>20,543,606</u></u>	<u><u>20,543,606</u></u>
<b>Fund balance at beginning of year</b>			<u>56,907,723</u>		
<b>Fund balance at end of year</b>			<u>\$ <u><u>20,543,606</u></u></u>		

**Watauga County, North Carolina**  
**Solid Waste Fund**  
**Statement of Revenues and Expenditures**  
**Budget and Actual (NON-GAAP)**  
**For the Fiscal Year Ended June 30, 2009**

	2008		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Operating revenues:			
Landfill charges	\$	3,910,290	
Restricted intergovernmental revenues		106,340	
Total	4,250,903	4,016,630	(234,273)
Non-operating revenues:			
Investment earnings	20,000	27,980	7,980
Total revenues	4,270,903	4,044,610	(226,293)
EXPENDITURES:			
Landfill operations:			
Salaries and employee benefits		1,156,709	
Other operating expenditures		2,820,928	
Total	4,608,029	3,977,637	630,392
Budgetary appropriations			
Interest paid		12,684	
Debt principal		196,162	
Capital outlay		421,945	
Total budgetary appropriations	806,998	630,791	176,207
Total expenditures	5,415,027	4,608,428	806,599
Revenues under expenditures	(1,144,124)	(563,818)	580,306
Other financing sources (uses):			
Transfers to general fund for debt payment	(78,470)	(78,470)	--
Appropriated fund balance	1,222,594	--	(1,222,594)
Total other financing sources (uses):	1,144,124	(78,470)	(1,222,594)
Revenues over expenditures and other sources (use):	\$ --	(642,288)	(642,413)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlays		421,945	
Depreciation		(234,281)	
Payment of debt principal		196,162	
Increase in accrued OPEB		(4,898)	
Increase in accrued vacation pay		(12,253)	
Loss on disposal of assets		(14,858)	
Total reconciling items		351,817	
Change in net assets:		\$ (290,471)	

**Watauga County, North Carolina**  
**Combining Statement of Fiduciary Net Assets**  
**Pension Trust Fund**  
**For the Year Ended June 30, 2009**

	<b>LEO Special Separation <u>Allowance</u></b>
<b>Assets</b>	
Cash and cash equivalents	\$ <u><u>172,321</u></u>
<b>Liabilities and Net Assets</b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ <u>    --</u>
Total liabilities	<u>    --</u>
Net Assets:	
Assets held in trust for pension benefits	\$ <u><u>172,321</u></u>

**Watauga County, North Carolina**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Fund**  
**For the Year Ended June 30, 2009**

	<b>LEO Special Separation Allowance</b>
Additions:	
Employer contributions	\$ 30,983
Interest	<u>1,918</u>
Total additions	<u>32,901</u>
Deductions:	
Benefits	20,749
Administrative expense	<u>234</u>
Total deductions	<u>20,983</u>
Change in net assets	11,918
Net assets, beginning	<u>160,403</u>
Net assets, ending	<u><u>\$ 172,321</u></u>

**Watauga County, North Carolina**  
 Agency Funds  
 Combining Statement of Changes in Assets and Liabilities  
 For the Fiscal Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<b>Social Services:</b>				
Assets:				
Cash and Investments	\$ 22,332	206,107	207,759	20,680
Liabilities:				
Accounts Payable	\$ 22,332	206,107	207,759	20,680
<b>Vehicle Tax-Towns:</b>				
Assets:				
	3,676	92,859	93,776	2,759
Liabilities:				
Accounts Payable	3,676	92,859	93,776	2,759
<b>Jail Commissary:</b>				
Assets:				
Cash and Investments	11,046	81,950	82,662	10,334
Liabilities:				
Accounts Payable	11,046	81,950	82,662	10,334
<b>Fines and Forfeitures:</b>				
Assets:				
Cash and Investments	--	371,589	371,589	--
Liabilities:				
Accounts Payable	--	371,589	371,589	--
<b>Motor Vehicle Tax Fund:</b>				
Assets:				
Cash and Investments	820	11,668	11,609	879
Liabilities:				
Accounts Payable	820	11,668	11,609	879
<b>Total - All Agency Funds</b>				
Assets:				
Cash and Investments	\$ 37,874	764,173	767,395	34,652
Liabilities:				
Accounts Payable	\$ 37,874	764,173	767,395	34,652

**Watauga County, North Carolina**  
**General Fund**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2009**

Fiscal year:	Uncollected Balance June 30, 2008	Additions	Collections and Credits	Uncollected Balance June 30, 2009
2008 - 2009	\$ --	27,009,982	26,202,804	807,178
2007 - 2008	556,701	--	298,562	258,139
2006 - 2007	161,622	--	55,614	106,008
2005 - 2006	88,629	--	13,916	74,713
2004 - 2005	60,847	--	6,341	54,506
2003 - 2004	55,460	--	6,150	49,310
2002 - 2003	51,682	--	5,873	45,809
2001 - 2002	43,774	--	1,890	41,884
2000 - 2001	37,737	--	1,757	35,980
1999 - 2000	32,382	--	1,568	30,814
1998 - 1999	32,471	--	32,471	--
	<u>\$ 1,121,305</u>	<u>27,009,982</u>	<u>26,626,946</u>	<u>1,504,341</u>

Plus: 2009 - 2010 receivable	5,224
Less: allowance for uncollectible accounts General Fund	<u>(439,791)</u>
Ad valorem taxes receivable - net General Fund	<u>\$ 1,069,774</u>

<u>Reconciliation with revenues:</u>	
Ad valorem taxes - General Fund	\$ 26,702,826
Reconciling items:	
Advertising and interest collected	(120,328)
Taxes written off	40,840
Prior year release refunds	<u>3,608</u>
Total reconciling items	<u>(75,880)</u>
Total collections and credits	<u>\$ 26,626,946</u>

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 County-Wide Levy  
 For the Fiscal Year Ended June 30, 2009

	County-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current year's rate	\$ 8,171,251,507	\$ 0.313	25,575,753	\$ 25,575,753	--
Motor vehicles	380,330,491	0.313	1,190,786	--	1,190,786
Penalties	--		6,928	6,928	--
Total	8,551,581,998		26,773,467	25,582,681	1,190,786
Discoveries:					
Current year taxes	81,011,231	0.313	251,069	251,069	--
Prior year taxes	--		30,706	30,706	--
Penalties	--		645	645	--
Total	81,011,231		282,420	282,420	--
Abatements:	(14,666,134)		(45,905)	(23,493)	(22,412)
Total property valuation	\$ 8,617,927,095				
Net levy			27,009,982	25,841,608	1,168,374
Uncollected taxes at June 30, 2009			807,178	692,419	114,759
Current year's taxes collected			\$ 26,202,804	25,149,189	1,053,615
Current levy collection percentage			97.01%	97.32%	90.18%

**WATAUGA COUNTY, NORTH CAROLINA**  
**Analysis of Current Tax Levy**  
**County-wide Levy**  
**For the Fiscal Year Ended June 30, 2009**

**Statement 17-A**

**Secondary Market Disclosures:**

Assessed Valuation:	
Assessment Ratio	100%
Real Property	\$ 7,971,079,604
Personal Property	571,358,646
Public Service Companies	<u>75,488,845</u>
Total Assessed Valuation	8,617,927,095
Tax Rate per \$100	<u>0.313</u>
Levy (includes discoveries, releases and abatements)	\$ <u><u>27,009,982</u></u>

In addition to the County-wide rate, the following table lists the levies by the County on behalf of fire protection districts for the fiscal year ended June 30:

Fire Protection Districts	\$ <u><u>2,598,939</u></u>
---------------------------	----------------------------

**WATAUGA COUNTY, NORTH CAROLINA  
Ten Largest Taxpayers  
For the Fiscal Year Ended June 30, 2009**

**Statement 17-B**

Taxpayer	Type of Business	2008 Assessed Valuation	Percentage of Total Assessed Valuation
BR Development Group LLC	Real Estate Development	\$ 59,454,090	0.69 %
Blue Ridge Electric	Electric Utility	55,588,994	0.64
Mountaineer Village LLC	Rental Properties	25,769,700	0.30
Lowe's Home Centers	Home Supply Center	21,559,300	0.25
Appalachian South	Rental Properties	20,330,140	0.24
Upper Blue Mountain Holdings, LLC	Resort/Real Estate	20,268,100	0.23
Village at Meadowview of Boone LTD	Rental Properties	18,906,800	0.22
BellSouth	Telephone Utility	17,040,754	0.20
Blue Mountain Holdings, LLC	Resort/Real Estate	16,083,300	0.19
Paul Brown Enterprises	Commercial Real Estate	<u>14,238,905</u>	<u>0.16</u>
		<u>\$ 269,240,083</u>	<u>3.12 %</u>

**Watauga County, North Carolina**  
 Analysis of Current Tax Levy  
 Fire Districts  
 For the Fiscal Year Ended June 30, 2009

	Beaver Dam Fire District	Beech Mtn. Rural Fire Service District	Blowing Rock Rural Fire District	Boone Rural Fire District	Cove Creek Fire District	Cove Creek Rural Fire Service District	Deep Gap Fire District	Foscoe Fire District
Tax rate	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.04</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 110,844	1,242	443,184	572,662	214,575	301	176,441	437,696
Uncollected taxes at June 30, 2009	<u>2,283</u>	<u>29</u>	<u>8,012</u>	<u>39,095</u>	<u>7,882</u>	<u>--</u>	<u>7,232</u>	<u>11,759</u>
Current year's taxes collected	\$ <u>108,561</u>	<u>1,213</u>	<u>435,172</u>	<u>533,567</u>	<u>206,693</u>	<u>301</u>	<u>169,209</u>	<u>425,937</u>
Current levy collection percentage	<u>97.94%</u>	<u>97.67%</u>	<u>98.19%</u>	<u>93.17%</u>	<u>96.33%</u>	<u>100.00%</u>	<u>95.90%</u>	<u>97.31%</u>
	Foscoe Rural Fire Service District	Meat Camp Fire District	Meat Camp/ Creston Fire District	Shawneehehaw Fire District	Shawneehehaw Rural Fire Service District	Stewart Simmons Fire District	Todd Fire District	Zionville Fire District
Tax rate	<u>0.05</u>	<u>0.03</u>	<u>0.03</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
Net levy	\$ 63,668	123,369	3,597	87,848	4,767	206,868	42,748	109,430
Uncollected taxes at June 30, 2009	<u>1,356</u>	<u>3,817</u>	<u>228</u>	<u>1,886</u>	<u>137</u>	<u>7,762</u>	<u>1,101</u>	<u>3,612</u>
Current year's taxes collected	\$ <u>62,312</u>	<u>119,552</u>	<u>3,369</u>	<u>85,962</u>	<u>4,630</u>	<u>199,106</u>	<u>41,647</u>	<u>105,818</u>
Current levy collection percentage	<u>97.87%</u>	<u>96.91%</u>	<u>93.66%</u>	<u>97.85%</u>	<u>97.13%</u>	<u>96.25%</u>	<u>97.42%</u>	<u>96.70%</u>

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**Report on Internal Control over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards**

To the Board of County Commissioners  
Watauga County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Watauga County, North Carolina, as of and for the year ended June 30, 2009, which collectively comprises Watauga County's basic financial statements, and have issued our report thereon dated October 30, 2009. We did not audit the financial statements of AppalCART or the Watauga County District U Tourism Development Authority. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for AppalCART and the Watauga County District U Tourism Development Authority is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Watauga County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when designed or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal

control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watauga County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The County's responses to our findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the County's response and accordingly, we express no opinion on it.

This report is intended solely for the information of management, others within the organization, members of the Board of County Commissioners, and federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

***Bryce Holder, CPA, P.A.***

October 30, 2009

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**Report on Compliance With Requirements Applicable to Each Major Federal  
Program and Internal Control Over Compliance in Accordance With OMB  
Circular A-133 and the State Single Audit Implementation Act**

To the Board of County Commissioners  
Watauga County, North Carolina

Compliance

We have audited the compliance of Watauga County, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2009. Watauga County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Watauga County's management. Our responsibility is to express an opinion on Watauga County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Watauga County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Watauga County's compliance with those requirements.

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

### Internal Control Over Compliance

The management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Watauga County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the management, others within the organization, members of the Board of County Commissioners, and federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

***Bryce Holder, CPA, P.A.***

October 30, 2009

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## **Report on Compliance With Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act**

To the Board of County Commissioners  
Watauga County, North Carolina

### Compliance

We have audited the compliance of Watauga County, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2009. Watauga County's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Watauga County's management. Our responsibility is to express an opinion on Watauga County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Watauga County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Watauga County's compliance with those requirements.

In our opinion, Watauga County complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2009.

### Internal Control Over Compliance

The management of Watauga County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Watauga County's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a State program that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to material weaknesses, as defined above.

This report is intended solely for the information of the management, others within the organization, members of the Board of County Commissioners, and federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.

***Bryce Holder, CPA, P.A.***

October 30, 2009

WATAUGA COUNTY, NORTH CAROLINA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2009

I. **Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_\_\_ Yes      X   None reported

Noncompliance material to financial Statements noted \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_\_\_ Yes      X   None reported

Type of auditor's report issued noncompliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 \_\_\_\_\_ Yes      X   No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Title XIX Medicaid	93.778
Food Stamp Program	10.551 10.561
Subsidized Child Care Cluster	93.575 93.596 93.667 93.558

Federal programs that did not meet the criteria for a major program using the criteria discussed in OMB Circular No. A-133 Section .520 but were tested as a major program because the State awards met the threshold for a major State program are included in the list of major federal programs (Subsidized Childcare Cluster).

Dollar threshold used to distinguish Between Type A and Type B Programs: \$   732,660  

Auditee qualified as low-risk auditee \_\_\_\_\_   X   Yes    \_\_\_\_\_ No

Watauga County, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2009

**State Awards**

Internal control over major State Programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_\_\_ Yes      X   None reported

Type of auditor's report issued on compliance for major State programs:  
Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act \_\_\_\_\_ Yes      X   No

Identification of major State programs:

**Program Name**

Subsidized Childcare cluster

Title XIX Medicaid

**II. Financial Statement Findings:**

There were no findings.

**III. Federal Award Findings and Questioned Costs**

There were no findings or questioned costs.

**IV. State Award Findings and Questioned Costs**

There were no findings or questioned costs.

WATAUGA COUNTY, NORTH CAROLINA  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For the Year Ended June 30, 2009

Finding 2006

Status: No findings that would have been reported under the criteria provided in the revised circular.

Finding 2007

Status: The County has hired another person with sufficient expertise to help monitor the auditor's drafting of the financial statements and is in the process of developing a schedule to phase in the procedures of drafting the financial statements in house with the assistance of the auditors.

Finding 2008

Status: No findings that would have been reported under the criteria provided in the revised circular.

**WATAUGA COUNTY, NORTH CAROLINA**  
 Schedule of Expenditures of Federal and State Awards  
 For the Fiscal Year Ended June 30, 2009

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>Federal Grants:</b>					
<b>U.S. Dept. of Agriculture</b>					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Administration:					
Food Stamp Cluster:					
Food Stamp Program-Noncash	10.551		\$ 2,815,199	--	--
State Administrative Matching Grants for the Food Stamp Program	10.561		<u>254,218</u>	--	<u>254,218</u>
Total Food Stamp Cluster			<u>3,069,417</u>	--	<u>254,218</u>
Passed-through the N.C. Dept. of Health and Human Services:					
Nutrition Program for the Elderly	10.570		<u>17,452</u>	--	--
<b>Total U.S. Dept. of Agriculture</b>			<u>3,086,869</u>	--	<u>254,218</u>
<b>U.S. Dept. of Housing and Urban Development</b>					
Passes-through the N.C. Dept of Crime Control and Public Safety					
Community Development Block Grant	14.228	06-C-1541	<u>68,404</u>	--	--
Total U.S. Dept. of Housing and Urban Development			<u>68,404</u>	--	--
<b>U.S. Dept of Homeland Security</b>					
Passed-through the N.C. Dept of Crime Control and Public Safety:					
Hazardous Material Emergency Preparedness Planning					
	97.021		5,904	--	--
Emergency Management Performance Grant	97.042		28,642	--	28,642
State Homeland Security Program	97.073		<u>4,075</u>	--	--
Total U.S. Dept of Homeland Security			<u>38,621</u>	--	<u>28,642</u>
<b>U.S. Dept. of Justice</b>					
State Criminal Alien Assistance Program					
Passed-through the N.C. Dept of Crime Control and Public Safety:	16.606		8,065	--	--
Domestic Violence Intervention Program	16.588		<u>42,430</u>	--	<u>14,143</u>
Total U.S. Dept of Justice			<u>50,495</u>	--	<u>14,143</u>
<b>U.S. Dept. of Transportation</b>					
Passed-through the N.C. Dept. of Transportation					
North Carolina Governor's Highway Safety Program	20.600		<u>19,519</u>	--	--
<b>U.S. Dept. of Health &amp; Human Services</b>					
Administration on Aging					
Aging Cluster:					
Passed-through High Country Council of Governments					
Special Programs for the Aging - Title III F					
Disease Prevention and Health Promotion Services	93.043		2,348	124	275
Special Programs for the Aging - Title III B					
Grants for Supportive Services and Senior Centers	93.044		26,639	62,158	9,866
Special Programs for the Aging - Title III C					
Nutritional Services	93.045		78,052	40,805	13,206
Senior Center			--	18,252	89
Fan and Heat Program				400	
Family Caregiver Support Program	93.052		4,918	314	581
Social Services Block Grant (SSBG)					
In-home Services	93.667		<u>7,957</u>	<u>18,567</u>	<u>2,947</u>
Total Aging Cluster			<u>119,914</u>	<u>140,620</u>	<u>26,964</u>
Administration for Children and Families					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Social Services:					
Family Preservation					
	93.556		434	--	--
Temporary Assistance for Needy Families					
Administration	93.558		225,895	--	175,539
Direct Benefit Payments	93.558		88,306	--	--
Low-Income Home Energy Assistance Block Grant:					
Administration	93.568		166,134	--	--
Direct Benefit Payments	93.568		154,683	--	--

**WATAUGA COUNTY, NORTH CAROLINA**  
 Schedule of Expenditures of Federal and State Awards  
 For the Fiscal Year Ended June 30, 2009

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>U.S. Dept. of Health &amp; Human Services (cont.)</b>					
Child Welfare Services	93.645		12,237	3,145	934
Child Welfare Services:					
Adoption Subsidy - Direct Benefit Payments	93.645		--	73,625	15,166
Title IV-E Foster Care	93.658		174,828	10,952	142,656
Foster Care - Direct Benefit Payments	93.658		104,196	15,154	30,797
Adoption Assistance - Administration	93.659		--	--	--
Adoption Assistance - Direct Benefit Payments	93.659		198,465	39,279	52,634
Social Services Block Grant	93.667		168,544	33,205	56,270
DCD Smart Start			--	42,300	--
Adoption/Foster Care Special Provision			13,403	13,083	401
Subsidized Child Care					
<u>Child Care Development Cluster</u>					
Division of Social Services					
Child Care Development Fund - Administration	93.596		80,000	--	--
Child Care and Development					
Fund - - Discretionary	93.575		237,461	--	--
Child Care and Development					
Fund - - Mandatory	93.596		48,974	--	--
Child Care and Development					
Fund - - Match	93.596		171,504	94,183	--
Total Child Care Development Fund Cluster			<u>537,939</u>	<u>94,183</u>	<u>--</u>
Social Services Block Grant	93.667		4,803	--	--
Temporary Assistance for Needy Families	93.558		110,274	--	--
Smart Start			--	55,117	--
TANF - Maintenance of Effort			--	5,207	--
TANF - Contingency	93.575		117,849	--	--
Total Subsidized Child Care (Note 3)			<u>770,865</u>	<u>154,507</u>	<u>--</u>
Health Care Financing Administration					
Passed-through the N.C. Dept. of Health and Human Services:					
Division of Medical Assistance:					
Direct Benefit Payments:					
Medical Assistance Program	93.778		18,362,427	7,136,881	506,931
Division of Social Services:					
Medical Assistance Program					
Administration	93.778		493,132	24,731	456,872
Health Choice	93.767		29,000	1,350	8,275
Links	93.674		2,859	715	--
Links- Direct Benefit Payments	93.674		3,450	--	--
Passed-through the N.C. State Board of Elections					
Help America Vote Act of 2002	93.617		67,751	--	--
Passed-through the N.C. Office of Emergency Medical Services:					
National Bioterrorism Hospital Preparedness Grant	93.889		1,559	--	--
<b>Total U.S. Department of Health &amp; Human Services</b>			<u>21,158,082</u>	<u>7,689,547</u>	<u>1,473,439</u>
<b>Total Federal Awards</b>			<u>24,421,990</u>	<u>7,689,547</u>	<u>1,770,442</u>
<b>State Awards:</b>					
<b>N.C. Dept. of Health and Human Services</b>					
Division of Social Services					
State/County Special Assistance for Adults-					
Direct Benefit Payments			--	283,967	283,967
State Foster Care Benefits Program			--	37,749	37,749
Program Integrity			--	76	--
State Aid to Counties			--	20,725	--
State Adult Protective Service			--	25,587	--
<b>Total N.C. Dept. of Health and Human Services</b>			<u>--</u>	<u>368,104</u>	<u>321,716</u>

**WATAUGA COUNTY, NORTH CAROLINA**  
 Schedule of Expenditures of Federal and State Awards  
 For the Fiscal Year Ended June 30, 2009

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal (Direct & Pass- Through) Expenditures	State Expenditures	Local Expenditures
<b>Office of the Governor</b>					
Department of Juvenile Justice and Delinquency Prevention Juvenile Crime Prevention Council Programs			--	114,862	32,842
<b>Total Office of the Governor</b>			--	114,862	32,842
<b>N.C. Dept. of Public Instruction</b>					
Public School Capital Building Fund			--	168,616	797,974
Public School National Forest Service			--	649	--
<b>Total N.C. Dept. of Public Instruction</b>			--	169,265	797,974
<b>N.C. Dept. of Transportation</b>					
Workfirst/Employment Transportation Operating Assistance			--	7,996	--
Elderly and Disabled Transportation Assistance Program (E&DTAP)			--	70,170	--
Rural General Public Program			--	76,579	--
Foscoe Volunteer Fire Dept. Driveway			--	23,000	--
Valle Crucis Elementary School Driveway			--	6,000	--
<b>Total N.C. Dept. of Transportation</b>			--	183,745	--
<b>N.C. Dept. of Environment, Health, and Natural Resources</b>					
Soil Conservation Assistance			--	4,000	64,864
Soil Conservation Cost Sharing			--	24,493	24,493
N.C. Foundation Soil and Water Conservation, Inc			--	13,786	--
N.C. Community Conservation Assistance Program Division of Waste Management			--	10,771	--
White Goods Disposal Grant			--	2,173	--
Scrap Tire Disposal Grant			--	9,118	--
<b>Total N.C. Dept. of Environment, Health, and Natural Resources</b>			--	64,341	89,357
<b>N.C. Dept. of Corrections</b>					
Criminal Justice Partnership Program			--	62,997	--
<b>N.C. Division of Veteran's Affairs</b>					
Veteran's Service Program			--	2,000	106,115
<b>Total State awards</b>			--	965,314	1,348,004
<b>Total federal and State awards</b>			\$ 24,421,990	8,654,861	3,118,446

**Notes to the Schedule of Expenditures of Federal and State Financial Awards:**

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Watauga County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general purpose financial statements. Benefit payments are paid directly to recipients and are not included in the county's basic financial statements. However, due to the county's involvement in determining eligibility, they are considered federal awards to the county and are included on this schedule.

2. Subrecipients

Of the federal and State expenditures presented in the schedule, Watauga County provided federal and state awards to subrecipients as follows:

Program Title	CFDA Number	Federal Expenditures	State Expenditures
Food Stamp Program-noncash	10.551	\$ 2,815,198	--
Temporary Assistance for Needy Families	93.558	88,306	--
Medical Assistance Program	93.778	18,362,427	7,136,881
Low Income Home Energy Assistance Block Grant	93.568	154,683	--
Child Welfare - Adoption Subsidy	93.645	--	73,625
Foster Care	93.658	104,196	15,154
Adoption Assistance	93.659	198,465	39,279
Links	93.674	3,450	--
Adult Assistance	--	--	283,967

3. The following are clustered by the NC Department of Health and Human Services and are treated separately for state audit requirement purposes:

Subsidized Child Care